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**State Auditor**

An Audit Report on

**Selected State Contracts and  
Grants at the Harris County  
Department of Education**

September 2015

Report No. 16-004



An Audit Report on

# **Selected State Contracts and Grants at the Harris County Department of Education**

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## **Overall Conclusion**

The Harris County Department of Education (Department) had controls in place to help ensure that it received and used funds from state grants and contracts for the intended purposes. The Department generally complied with applicable terms and conditions, policies and procedures, and state laws when tracking and spending those funds. In addition, the Department spent property tax revenue it collected in accordance with applicable state laws.

However, auditors identified opportunities for the Department to improve its management of its contract for the Texas Virtual School Network. The Department was not able to provide documentation for the allocation of \$360,906 in funding for salaries and \$86,315 in funding for building improvements to house the Texas Virtual School Network in fiscal years 2012 and 2013.

The Department also paid its employees stipends in addition to their regular salaries without submitting all of the stipends to its board of trustees for review, as required by the board of trustees compensation and benefits policy. Of the \$472,575 in stipend payments tested, the Department did not submit \$189,845 of those payments to the board of trustees. In total, the Department made \$871,610 in stipend payments from fiscal year 2012 through fiscal year 2014.

In addition, the Department did not adequately manage user access to its financial system. As a result, two employees had inappropriate access to one of the Department's systems, which circumvented controls related to segregation of duties. In addition, the Department did not restrict physical access to certain areas to only those employees who needed access to perform their job responsibilities.

### **Background Information**

The Legislature created the Harris County Department of Education (Department) in 1889 to provide free public schools. In 1978, the Legislature abolished state funding for county schools, but it permitted counties that were legally allowed to assess a property tax to continue to do so. As of June 2015, only two county schools remained in Texas: the Harris County Department of Education (Department) and the Dallas County Schools. The Department provides services to 25 school districts in Harris County. In fiscal year 2014, the Department employed 897 staff and provided direct services to 17,206 students. See Appendix 2 for additional details.

The Department received state funds totaling \$8.6 million in fiscal year 2012; \$7.4 million in fiscal year 2013; and \$6.7 million in fiscal year 2014. Included in those funds are state grants and contracts that totaled \$4.1 million in fiscal year 2012; \$3.6 million in fiscal year 2013; and \$3.0 million in fiscal year 2014. The Department indicated it is required to follow all statutes written for school districts in Texas, unless a statute conflicts with Chapter 17 or Chapter 18 of the Texas Education Code.

The Department has its fiscal accounts audited annually by a certified or public accountant holding a permit from the Board of Public Accountancy in accordance with Texas Education Code, Section 44.008(a). The audited financial reports are available at <http://www.hcde-texas.org/default.aspx?name=013.FinancialReports2015>.

(See Appendix 2 for more information about the background and services provided by the Department and Dallas County Schools.)

Sources: The Department's Web site and audited financial report for fiscal year 2014, and documentation provided by the Department.

*This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.*

*For more information regarding this report, please contact Angelica Ramirez, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.*

Auditors communicated other, less significant issues separately in writing to the Department.

## ***Summary of Management's Response***

The Department agreed with the recommendations in this report.

## ***Summary of Information Technology Review***

Auditors reviewed the general controls over the Department's financial system, which the Department used to process transactions related to its operations. Auditors also conducted a walk-through of the Department's data center and a review of the Department's network security controls. Auditors identified information technology weaknesses in user access controls for the financial system and physical controls for the Department's building.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were to determine whether the Department has controls in place to help ensure that it:

- Receives and uses funds from state grants and contracts for their intended purpose.
- Complies with applicable terms and conditions, policies and procedures, state laws, and administrative rules.

The scope of this audit covered the Department's financial activities between September 1, 2011, and August 31, 2014, and included the Department's contracts, grants, and detailed financial information.

The audit methodology included gaining an understanding of the Department's financial processes; collecting and reviewing financial information related to revenues and expenditures; reviewing procurement documentation, including contracts and grant agreements; conducting interviews with Department staff; reviewing policies and procedures, statutes, and administrative rules; and performing selected tests and other procedures and analyzing and evaluating the results of those tests.

Auditors verified the completeness of Department revenue and expenditure data by comparing the total amount of revenue and expenditure transactions from the Department's financial system for fiscal years 2012, 2013, and 2014 to revenue and expenditure totals from the Department's audited financial statements. Auditors determined that expenditure and revenue data in the Department's financial system was sufficiently reliable for the purposes of this audit.

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# Detailed Results

## Chapter 1

### ***The Department Had Controls in Place to Help Ensure That It Used Funds from State Contracts and Grants as Intended; However, the Department Should Improve Its Management of Its Contract for the Texas Virtual School Network***

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The Harris County Department of Education (Department) had controls in place to help ensure that it used funds from state contracts and grants as intended. Auditors tested the controls over expenditures and revenues related to a grant from the Department of Assistive and Rehabilitative Services to the Department's Early Childhood Intervention Program; a grant from the Texas Education Agency to the Department's Adult Education Program<sup>1</sup>; and a contract between the Department and Regional Education Service Center 10 in Richardson for the Texas Virtual School Network.

#### **Texas Virtual School Network**

In 2007, the Legislature approved legislation to establish the Texas Virtual School Network to provide electronic courses to students. Texas Education Code, Chapter 30A, provides that the Commissioner of Education shall administer the state virtual school network and ensure (1) high quality education for students of Texas who are being educated through electronic courses provided through the state virtual school network and (2) equitable access by students to those courses.

In 2007, the Texas Education Agency awarded the Region 10 Education Service Center in Richardson a contract for the Texas Virtual School Network. The Region 10 Education Service Center subcontracted with the Department to provide the Texas Virtual School Network's central operations. The subcontracts that the Region 10 Education Service Center awarded to the Department totaled \$2,410,000 for fiscal year 2012; \$1,945,186 for fiscal year 2013; and \$1,579,885 for fiscal year 2014. The Department expended the maximum amount on those contracts each year.

Sources: The Department and Texas Education Code, Chapter 30.

All reimbursement payments tested totaling \$467,006 related to the Early Childhood Intervention Program grant complied with contractual and other applicable requirements and were appropriately supported. In addition, all reimbursement payments tested related to the Adult Education Program grant totaling \$920,149 complied with contractual and other applicable requirements and were appropriately supported.

In addition, all itemized expenditures tested totaling \$88,605 for the Early Childhood Intervention Program grant and \$23,432 for the Adult Basic Education Program grant were properly reviewed and approved according to Department policies and procedures.

However, the Department should improve its processes for managing its Texas Virtual School Network contract and documenting how it allocates costs to that contract (see text box for more information about the network). Specifically:

- The Department was unable to provide sufficient documentation to support a total of \$360,906 in salary expenses for information technology staff that it reclassified from Department expenditures to expenditures related to the Texas Virtual School Network contract at the end of fiscal years 2012 and 2013. The Department reclassified \$223,475 in salaries to the Texas Virtual School Network contract in fiscal year 2012 and \$137,431 in fiscal

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<sup>1</sup> The Texas Education Agency's Adult Education Program was transferred to the Texas Workforce Commission effective September 1, 2013.

year 2013. Those salary reclassifications accounted for more than 50 percent of the annual salaries for three information technology employees. However, the Department did not maintain time reports or other documentation to show the allocation of the employees' time spent on the Texas Virtual School Network. According to the Department, the amounts of the reclassifications were estimates calculated at the end of each contract year.

- The Department was unable to provide sufficient documentation to support salaries charged to the Texas Virtual School Network contract totaling \$314,431 in fiscal year 2012 and \$177,100 in fiscal year 2013. Those charges included maintenance and support by Department staff for a server, storage, and an operating system. However, the Department did not have documentation to support that those salaries were in addition to the \$360,906 in technology staff salary expenses discussed above.
- The Department allocated \$86,315 to the Texas Virtual School Network contract in fiscal year 2012 for renovations to improve office space to house the Texas Virtual School Network. Those renovations were completed in November 2010, which was prior to the performance period for the fiscal year 2012 contract. In addition, the Department lacked documentation showing that the Region 10 Education Service Center authorized the payment for the renovations.
- The Department overcharged the Texas Virtual School Network contract \$24,576 in fiscal year 2013 for space allocated to the Texas Virtual School Network's operations. The monthly allocation should have been \$7,952, or \$95,424 for 12 months, based on the allocation methodology that the Department used for all other programs. However, the Department charged \$120,000 for fiscal year 2013 to the Texas Virtual School Network contract. The Department was unable to provide an explanation for that overcharge.
- The Department charged \$2,184 for non-travel-related food to the Texas Virtual School Network contract in fiscal years 2012 and 2013; however, the Department did not have a final approved budget for fiscal year 2012 and non-travel-related food was not an allowable item in the fiscal year 2013 budget. In addition, the fiscal year 2013 budget allocated \$90,000 specifically to expand an emergency alert system; however, that expansion was not performed. The Department fully expended that \$90,000 for purposes other than the purpose for which that funding was budgeted.

**The Department's non-state-funded expenditures complied with its policies and procedures.** The Department processed and approved expenditures not specifically related to state grants or contracts tested in compliance with its policies and procedures. Specifically:

- All 38 payroll expenditures tested totaling \$57,394 for fiscal years 2012 through 2014 were properly reviewed and approved in accordance with Department policies and procedures.
- All 30 non-payroll expenditures tested totaling \$22,682 for fiscal years 2012 through 2014 were allowable based on applicable terms, conditions, state laws, and administrative rules, and they complied with Department policies and procedures.

**The Department had controls in place to ensure that it procured and awarded contracts in compliance with Department procurement and contracting policies.** The Department followed its procurement, approval, and contracting policies for all 30 contracts tested totaling \$1,746,880 that the Department procured in fiscal years 2012 through 2014. In addition, the Department complied with its policies and procedures when it procured all 17 professional services and consulting contracts tested totaling \$3,691,665. The Department also consistently followed its internal procedures related to approval thresholds and contract change orders for all 7,105 purchase orders analyzed for fiscal years 2012 through 2014.

**The Department did not always follow its board of trustees' policy for the review and approval of stipends.** The Department did not have detailed policies outlining the specific circumstances under which a stipend should be awarded to employees in addition to their regular salary or pay rate, and it did not consistently comply with its board of trustees' policy for reporting the payment of stipends to employees. Its board of trustees' policy requires the Department to submit stipends to its board of trustees for review before payment of the stipends. The Department paid a total of \$871,610 in stipends to employees for fiscal years 2012 through 2014. Auditors tested \$472,575 of those stipend payments and determined that \$189,845 of those payments were not submitted to the board of trustees for review as required.

**The Education Foundation of Harris County (Foundation) is a discretely presented component unit of the Department.** The Department provided \$570,000 in funding to the Foundation during fiscal years 2012 through 2014. During that same time period, the Foundation transferred \$2,745,269 in funding to the Department. For financial reporting purposes, the Foundation is considered a discretely presented component unit of the Department. The Foundation receives a separate financial statement audit annually.

## Recommendations

The Department should:

- Develop a process to ensure that it obtains and complies with the budget adopted for the contract with the Region 10 Education Service Center for operation of the Texas Virtual School Network.
- Implement procedures to ensure that adequate documentation is recorded and retained showing employees' time and effort attributed to the Texas Virtual School Network contract.
- Develop a process to ensure that all stipends are reported to the board of trustees before payment, as required by the board of trustees' policy.

## Management's Response

### Budget

*The Department agrees with the auditor's recommendation. HCDE takes pride in adhering to numerous and often complex requirements from many different external clients, grantors and partners. Our systems are designed to make sure that there is a risk assessment process that provides awareness to our program managers and is designed to ensure that these managers implement controls to meet the requirements. In the case of Texas Virtual School Grant, our staff received various communications from Region 10 to adjust the budget. Moving forward, HCDE has established a process to make sure that the budget is followed and all adjustments are documented properly from Region 10. Furthermore, the grant budget will be made an "Exhibit" to the contract with Region 10.*

*Staff Assigned to follow up: The Director of Texas Virtual School is tasked with the responsibility to implement and adhere to the grant budget. The Technology Division will monitor the budget and document any changes received from Region 10.*

*Timeline: The monitoring and implementation of the budget is a year round process according to the grant period. The timeline for implementation includes the following:*

<i>Assessment made</i>	<i>July 2015</i>
<i>Implementation</i>	<i>Effective August 1, 2015</i>
<i>Annual review</i>	<i>August 2015 and periodic review</i>



### Time and Effort

*The Department agrees with the auditor's recommendation. The Texas Virtual School staff provided documentation to the auditors to support services based on the need and the tasks completed. However, staff did not document their time and effort during each task.*

*A time and effort system has been implemented for this grant to make sure that any services provided to the grant are identified and properly documented. Time and effort forms are required for split technology staff that provide services and are charged to the grant. Full time technology staff charged to the grant will be required to do a time and effort survey every six months. Biweekly payroll distributions will be reviewed and approved by the program manager and business office.*

Staff Assigned to follow up: *The Director of Texas Virtual School is tasked with the responsibility to implement the time and effort system in accordance with the financial operating guidelines for a grant. The Technology Division will monitor the bi weekly payroll distributions and document any adjustment needed. The Business Office will review the documentation for compliance with the procedures.*

Timeline: *The monitoring grant expenditures is a year round process, and program managers are required to meet the grant program requirements. The timeline for implementation includes the following:*

<i>Assessment made</i>	<i>June 2015</i>
<i>Implementation</i>	<i>Effective July 1, 2015</i>
<i>Target Date</i>	<i>On-going process &amp; quarterly review</i>

### Stipends

*The Department agrees with the auditor's recommendation. HCDE has procedures in place to make sure that all stipends are reviewed each month by the Human Resources Office and submit any stipends for board action as necessary. Stipends are approved by position during the annual budget process, and any changes to the list of stipends are reviewed and submitted for Board approval.*

Staff Assigned to follow up: *The Human Resources Division is tasked with the responsibility to monitor and submit stipends to the board of trustees. Furthermore, the Business Office will be tasked with the responsibility to review the availability of funds for the stipends being recommended during the budget process and as changes are made.*

*Timeline: The monitoring and implementation of the elements of the budget is a year round process and changes to the stipends are being reviewed as follows.*

<i>Assessment made</i>	<i>July 2015</i>
<i>Implementation</i>	<i>Effective July 1, 2015</i>
<i>Target Date</i>	<i>On-going process &amp; monthly review</i>

## The Department's Allocation of Property Tax Revenue Complied with Statute

### Property Tax Authority

The Legislature created the Department in 1889 to provide free public schools. In 1937, Harris County voters authorized an equalization tax not to exceed \$0.01 per \$100.00 of property valuation for the purpose of creating an equalization fund. The Department's board of trustees annually sets a tax rate that does not exceed the voter maximum of \$0.01 per \$100.00 valuation of real property, and it is responsible for ensuring that expenditures using that revenue comply with statute.

Sources: The Department and Texas Education Code, Section 18.25.

### Department-operated Schools

The Department operates four schools:

- Academic and Behavior Centers East and West (two locations) serve children, youth, and young adults ages 5-22 with severe emotional disturbances, mental retardation, pervasive developmental disorders, and other health impairments. The Academic and Behavior Centers provided services to 175, 189, and 208 students in fiscal years 2012, 2013, and 2014, respectively.
- High Point Schools North and South (two locations) serve adjudicated youth by providing an intensive, technology-driven curriculum in a strict disciplinary environment. The High Point schools provided services to 867; 1,385; and 807 students in fiscal years 2012, 2013, and 2014, respectively.

Source: The Department's comprehensive financial reports for fiscal years 2012 through 2014.

The Department's use of property tax revenue aligned with statute. Operating under the Texas Education Code, the Department's board of trustees can expend property tax revenue for the equalization of education opportunities in Harris County and for the payment of administration expense. (See text box for information on tax authority.)

Auditors analyzed the Department's allocation of property tax revenue to its divisions for fiscal years 2012 through 2014. The majority of property tax revenue was allocated for internal expenses related to the Department's operations and technology support services.

The property tax revenue also funded a variety of programs operated by the Department, such as schools for at-risk students and students with emotional and academic special needs (schools), therapy services, professional development, and instructional support to school administrators and teachers (see text box for more information on the schools). For fiscal years 2012 through 2014, the Department did not allocate property tax revenue to Choice Partners Cooperatives, the Texas Virtual School Network, or the Texas Education Agency Employee Insurance. See Appendix 3 for more information on the Department's allocation of tax revenue.

The Department's board of trustees levied property taxes ranging from \$18.2 million for fiscal year 2012 to \$20.2 million for fiscal year 2014. The property taxes levied represented between 22 and 26 percent of total revenues for the Department for fiscal years 2012 through 2014 (see Table 1).

Table 1

Department Revenue			
Fiscal Year	Total Department Revenue	Property Taxes Levied For General Purposes	Property Tax Percent of Total Revenue
2012	\$81,395,169	\$18,248,412	22.4%
2013	86,540,442	19,353,694	22.4%
2014	77,347,804	20,184,898	26.1%

Source: The Department's comprehensive annual financial reports.

The Harris County Appraisal District establishes appraised property values. The Department’s board of trustees then levies taxes based on the appraised values. The Office of the Harris County Tax Assessor-Collector performs the billing and collection of the tax levies. Table 2 lists the Department’s property tax rates for tax years 2011 through 2014.

Table 2

Department Property Tax Rates for Tax Years 2011 through 2014	
Tax Year	Property Tax Rate
2011	\$0.006581 per \$100.00 valuation
2012	\$0.006617 per \$100.00 valuation
2013	\$0.006358 per \$100.00 valuation
2014	\$0.005999 per \$100.00 valuation

Source: The Department.

**Services to out-of-county school districts.** In addition to providing a broad array of services to school districts within Harris County, the Department provides services to school districts outside Harris County. Auditors determined that the Department had different fee structures for the in-county and out-of-county services that it provided. For example, occupational therapy services were provided at a daily rate of \$465 to Harris County residents and at a daily rate of \$515 to residents from outside Harris County. Additionally, auditors determined that the Department charged residents of Harris County \$19,500 per student to attend the schools that the Department operates, while it charged residents outside of Harris County \$22,500 per student to attend those schools.

## ***The Department Should Strengthen Its User Access and Physical Access Controls***

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The Department had processes to grant user access to its information systems; however, it should strengthen its controls over those processes. Auditors identified two Department employees who had inappropriate access to one of the Department's systems, which circumvented the controls related to segregation of duties. Auditors reviewed transactions and did not identify any inappropriate transactions related to the lack of segregation of duties.

The Department did not have a documented process to review user access on a periodic basis. Auditors tested 163 user accounts to the Department's financial system and determined that 19 users were not current employees. The Department deleted those users' access after auditors brought that issue to the attention of Department management.

The Department did not have a documented policy for granting user access to the Department's automated systems. The undocumented process included submission of a completed form that specified the access needed and that was supposed to be approved by an employee's manager. Auditors identified one instance in which the form was not used and access was granted by means of an email request to the information technology department. Having an inconsistent process for granting access can increase the risk that individuals could be granted access that exceeds their job responsibilities.

In addition, the Department did not ensure that user accounts to the Department's domain and servers were removed in a timely manner when the need for those accounts no longer existed. Specifically, 11 (23 percent) of 48 accounts with high-level access on the domain and 12 (39 percent) of 31 accounts with high-level access on the servers were no longer needed.

Auditors also identified inconsistencies in Department employees' understanding of who is responsible for reviewing user access and determining the appropriateness of levels of access. Auditors interviewed an information technology staff person who said that Department staff is responsible for determining the appropriate level of access, and a Department staff person told auditors that the information technology staff were responsible for determining whether access was appropriate.

**Physical access controls should be strengthened.** The Department's physical access controls were weak, and the Department was not appropriately monitoring the badge-access system to its administration office building. The Department uses an outside vendor to manage badge access to its building. When auditors were on site at the Department, auditors determined that a change was made to the badge-access system that increased unnecessary access to the Department's data center. The Department and outside vendor were unable to

provide a response to explain who authorized the change and when the change was made. It is important to monitor changes to building access and ensure that assets and the building are safeguarded.

## **Recommendations**

The Department should:

- Ensure that user access granted to its systems allows for adequate segregation of duties.
- Develop and implement a process to perform periodic reviews of user access to its key systems to determine whether that access is appropriate.
- Provide training on the process for granting user access, and clearly assign responsibility for who should determine if user access is appropriate.
- Develop a process to verify that only those individuals with a need should have physical access to the Department's administration office building.

## **Management's Response**

### *Financial System user access & user training*

*The Department agrees with the auditor's recommendation. The Technology Division has procedures in place to review financial systems user access. Since the auditor's review of system access, the Technology Division in conjunction with the Business Office has developed an electronic process to address user access. This system is documented in the SharePoint system and the review process includes the (1) division manager, the (2) technology division and (3) the business office. The changes to the system are not implemented by the technology division unless prior approval has been secured through the Business Office.*

*The Business Office has developed a review of the user profiles (approval roles) and provided training to the technology division and user departments so that the appropriate level of system access (role) is selected for approval. The Business Office ultimately reviews and approves the access. In addition, the business office will review user access each quarter to make sure that appropriate access levels are checked and reviewed for possible adjustments.*

*Staff Assigned to follow up: The Technology Division is tasked with the responsibility to implement financial systems user access as approved by the Business Office. The Business Office reviews the roles each time that a request is made.*

Timeline: The monitoring and implementation of access to the system is an ongoing process.

The timeline for implementation includes the following:

<i>Assessment made</i>	<i>June 2015</i>
<i>Implementation</i>	<i>Effective July 1, 2015</i>
<i>First change of access/training</i>	<i>August 2015</i>
<i>Annual review</i>	<i>August 2016</i>

Badge system & access

The Department agrees with the auditor's recommendation. The Technology Division, the Facilities Division, the Human Resources Division and the Business Office have implemented a review process for all badges for all divisions. A committee of technology, business and facilities division has been implemented to make sure that a procedure is reviewed and that the list of badge access is restricted.

The committee has reviewed the procedure and implemented a system to limit access to non-employees, Furthermore; the list of employees with access has been reviewed by the committee (technology, facilities, business and human resources)

The Human Resources Divisions has identified a list of roles for badge access to physical locations in HCDE. Badge list will be reviewed each quarter through the committee.

Staff Assigned to follow up: The Human Resources Division is tasked with the responsibility to implement badge user access as approved by the Facilities Division. The Human Resources reviews the roles each time that a request is made.

Timeline: The monitoring and implementation of access to the system is ongoing process.

The timeline for implementation includes the following:

<i>Assessment made</i>	<i>June 2015</i>
<i>Implementation</i>	<i>Effective July 1, 2015</i>
<i>First change of access/training</i>	<i>August 2015</i>
<i>Annual review</i>	<i>August 2016</i>

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to determine whether the Harris County Department of Education (Department) has controls to help ensure that it:

- Receives and uses funds from state grants and contracts for their intended purpose.
- Complies with applicable terms and conditions, policies and procedures, state laws, and administrative rules.

### **Scope**

The scope of this audit covered the Department's financial activities between September 1, 2011, and August 31, 2014, and included the Department's contracts, grants, and detailed financial information.

### **Methodology**

The audit methodology included gaining an understanding of the Department's financial processes; collecting and reviewing financial information related to revenues and expenditures; reviewing procurement documentation, including contracts and grant agreements; conducting interviews with Department staff; reviewing policies and procedures, statutes, and administrative rules; and performing selected tests and other procedures and analyzing and evaluating the results of those tests.

### **Data Reliability and Completeness**

Auditors assessed the reliability of the data used in the audit by performing a limited review of general controls over the Department's financial system. Auditors verified the completeness of the Department revenue and expenditure data by comparing the total amount of revenue and expenditure transactions from the Department's financial system for fiscal years 2012, 2013, and 2014 to revenue and expenditure totals from the Department's audited financial statements. Auditors determined that expenditure and revenue data in the Department's financial system was sufficiently reliable for the purposes of this audit.



### **Sampling Methodology**

Auditors selected a nonstatistical, random sample of expenditures related to three state-funded programs and also used professional judgment to select a sample of revenue transactions related to the state-funded grants and contract for those same three programs. In addition, auditors selected a nonstatistical, random sample of expenditures not related to state-funded contracts or grants that included nonpayroll and payroll expenditures. Auditors also used professional judgment to select a sample of nonstate-funded expenditures for stipends paid to Department employees for testing. Auditors selected a nonstatistical, random sample of contracts to test the controls over the procurement process and used professional judgment to select a sample of professional services and consulting contracts with amounts exceeding \$30,000 for testing.

The samples selected using professional judgment were not necessarily representative of the population and, therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Department financial and accounting policies and procedures.
- Department's board of trustees policies and meeting minutes for fiscal years 2012 through 2014.
- The Department's audited financial statements for fiscal years 2012 through 2014.
- Department organizational chart.
- Department expenditure and revenue data for fiscal years 2012 through 2014.
- Invoices and supporting documentation for Department revenue and expenditure transactions.
- Department contracts and grants with expenditures during fiscal years 2012 through 2014.
- List of stipends paid to employees during fiscal years 2012 through 2014.
- List of Department employees.
- Department information technology procedures, including related documentation.
- Harris County property tax rates and tax revenues that the Department collected for fiscal years 2012 through 2014.

Procedures and tests conducted included the following:

- Conducted a walkthrough of the Department's data center.
- Analyzed user access to the Department's financial system.
- Tested contracts to determine whether they were approved in accordance with Department policies and procedures.
- Analyzed purchase orders to determine whether the approval process was consistently followed.
- Tested a sample of state-funded contracts and grants to determine whether the expenditures were properly supported and approved in accordance with grant and contract provisions.
- Analyzed the allocation and expenditure of tax revenue collected to determine whether it complied with statute.
- Tested a sample of stipends paid to employees to determine whether they were reported to the Department's board of trustees as required.

Criteria used included the following:

- Department policies and procedures.
- The Department's board of trustees policies.
- *Harris County Department of Education Financial Operating Guide 2013-2014.*
- Texas Education Code, Chapters 11, 17, 18, and 44.
- *Texas Education Agency Financial Accountability System Resource Guide.*
- The Department's grant and contract agreements for state-funded programs for fiscal years 2012 through 2014.

### **Project Information**

Audit fieldwork was conducted from January 2015 through June 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Kathy L. Aven, CFE, CIA (Project Manager)
- Norman G. Holz II, CPA (Assistant Project Manager)
- Brithani Byrd
- Michael Gieringer, MS, CFE
- Kyle Ketry
- Nicole McClusky, MAcc
- Steven M. Summers, CPA, CISA, CFE
- Scott Weingarten, CGAP
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

## **Background Information on the Department and Dallas County Schools**

### **County School Districts in Texas**

The Harris County Department of Education (Department) and Dallas County Schools are separate and distinct from the county agencies and independent school districts in Harris and Dallas counties.

Sources: The Department's comprehensive financial reports and Dallas County Schools comprehensive financial reports.

The Harris County Department of Education (Department) and Dallas County Schools are the only two county school districts remaining in Texas. County schools were created in 1889 under provisions of the Texas Education Code.

The Department and Dallas County Schools continue to operate under Texas Education Code, Chapters 17 and 18. Those two chapters of the Texas Education Code were repealed in 1995. However, Texas Education Code, Section 11.301, allowed a county system existing on May 1, 1995, to continue to operate.

The Department and Dallas County Schools are each governed by a seven-member board of trustees; three board members are elected at large and one board member is elected from each of the four county commissioner precincts. The Department's boards of trustees and Dallas County Schools set a tax rate and collect ad valorem taxes from their respective county property owners. Those tax revenues are designated as equalization funds.

Dallas County Schools provides four primary services to Dallas County independent school districts: (1) transportation, (2) instructional services, (3) psychological services, and (4) technology services. Dallas County Schools is the fourth largest provider of student transportation in the United States, with a fleet of 1,900 buses, and it serves more than 71,000 students twice daily.

During fiscal year 2014, the Department reported that it provided services to the following groups: direct student services to 17,206 students, adult education services to 10,374 students, and support services to 196,589 students. The Department provided a variety of external program services to school districts and the community at large. Those external services include an adult education program, an alternative teacher certification program, business services, the Center for Safe and Secure Schools, the Cooperative for After-School Enrichment program, Choice Partners (a purchasing cooperative), instructional support services, records management, and therapy services.

In addition, the Department operates four schools: two academic behavior centers for highly specialized educational services for students ages 5-22 with emotional and academic special needs and two schools for at-risk students (adjudicated or expelled youth) in grades 6-12.

Table 3 compares the Department and the Dallas County Schools for fiscal year 2014. Dallas County Schools is a county school district that provides services to 14 independent school districts in Dallas County and 2 independent school districts outside of the county, and it is a separate entity from the Dallas County Independent School District.

Table 3

Comparison of the Department and Dallas County Schools		
Fiscal Year 2014 <sup>a</sup>		
Category	The Department	Dallas County Schools
Fiscal Year 2014 Total Revenue	\$77,347,804 <sup>b</sup>	\$124,482,104
Fiscal Year 2014 Total Expenditures	\$74,547,391 <sup>b</sup>	\$128,798,259
Property Tax Rate	\$0.006358 per \$100.00 valuation <sup>c</sup>	\$0.01 per \$100.00 valuation
Property Tax Revenue	\$20,184,898	\$16,384,774
Number of In-county Independent School Districts Served	25	14
<sup>a</sup> The Department's fiscal year 2014 was from September 1 through August 31. The Dallas County Schools' fiscal year 2014 was from July 1 through June 30. <sup>b</sup> Department amounts do not include component units. <sup>c</sup> This rate listed here is for the Department's <u>fiscal year 2014</u> , which is <u>tax year 2013</u> . The tax year is the same as the first month of the Department's fiscal year. For example, the Department's fiscal year 2014 starts in September 2013 and would therefore be tax year 2013.		

Source: The Department's Web site and the Dallas County Schools' Web site.

## **Allocation of Collected Tax Revenue within Department Divisions**

The Harris County Department of Education (Department) allocates tax revenue to its divisions to support the Department's key functions and programs that provide services to school districts and the community. Table 4 shows the allocation of the collected tax revenue to Department divisions for fiscal years 2012 through 2014.

Table 4

<b>Allocation of Collected Tax Revenue to Department Divisions</b>						
<b>Fiscal Years 2012 through 2014</b>						
Division	Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014	
	Tax Revenue	Percent of Total Tax Revenue	Tax Revenue	Percent of Total Tax Revenue	Tax Revenue	Percent of Total Tax Revenue
Academic and Behavior Center East	\$763,885.06	4.16%	\$969,402.16	5.00%	\$925,663.26	4.57%
Academic and Behavior Center West	536,099.45	2.92%	508,140.35	2.62%	587,012.87	2.90%
Adult Education	134,741.97	0.73%	135,102.17	0.70%	136,664.17	0.67%
Alternative Certification Program	21,718.91	0.12%	81,274.95	0.42%	143,119.51	0.71%
Assistant Superintendent - Professional Services	231,496.63	1.26%	230,818.54	1.19%	238,737.70	1.18%
Assistant Superintendent - Student Services	215,153.65	1.17%	227,892.82	1.18%	226,590.97	1.12%
Board of Trustees	108,957.55	0.59%	158,756.50	0.82%	194,850.55	0.96%
Business Services	278,877.65	1.52%	952,631.46	4.92%	899,935.64	4.44%
Center for Texas Grants Development	321,900.80	1.75%	319,104.51	1.65%	501,075.01	2.47%
Center for Safe and Secure Schools	218,514.88	1.19%	267,296.98	1.38%	311,387.97	1.54%
Chief Information Officer	102,441.63	0.56%	56,588.55	0.29%	169,657.54	0.84%
Client Development Services	399,278.27	2.18%	401,389.83	2.07%	410,161.30	2.02%
Communication and Public Information	508,760.06	2.77%	653,799.00	3.37%	653,013.18	3.22%
Cooperative for After School Enrichment	140,162.00	0.76%	137,756.40	0.71%	135,158.29	0.67%
Department-wide <sup>a</sup>	7,926,200.35	43.18%	8,243,938.71	42.55%	7,851,162.67	38.75%
Digital Learning and Instructional Technology	74,126.46	0.40%	35,221.64	0.18%	0.00	0.00%
Education Foundation	200,927.20	1.09%	200,034.56	1.03%	200,703.90	0.99%
External Relations Officer	63,039.38	0.34%	6,265.00	0.03%	0.00	0.00%
Facility - Construction	151,366.25	0.82%	119,015.15	0.61%	122,342.09	0.60%
Facility - Support Services	2,987.40	0.02%	7,373.89	0.04%	0.00	0.00%
Head Start	24,786.31	0.14%	0.00	0.00%	0.00	0.00%
Highpoint East	362,420.23	1.97%	0.00	0.00%	243,751.44	1.20%
Highpoint North	12,815.13	0.07%	152,040.47	0.78%	56,003.06	0.28%
Human Resources	56,219.92	0.31%	107,728.92	0.56%	433,038.37	2.14%

**Allocation of Collected Tax Revenue to Department Divisions  
Fiscal Years 2012 through 2014**

Division	Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014	
	Tax Revenue	Percent of Total Tax Revenue	Tax Revenue	Percent of Total Tax Revenue	Tax Revenue	Percent of Total Tax Revenue
Instructional Services - Bilingual	48,901.62	0.27%	45,949.32	0.24%	32,611.63	0.16%
Instructional Services - Department-wide	54,585.48	0.30%	69,378.50	0.36%	112,477.49	0.56%
Instructional Services - Early Childhood Winter Conference	37,384.45	0.20%	57,092.85	0.29%	58,689.81	0.29%
Instructional Services - English Language Arts	14,789.15	0.08%	0.00	0.00%	1,042.89	0.01%
Instructional Services - Math	11,684.48	0.06%	0.00	0.00%	9,082.61	0.04%
Instructional Services - Science	1,745.57	0.01%	78,694.58	0.41%	57,142.09	0.28%
Instructional Services - Social Studies	32,380.83	0.18%	8,888.95	0.05%	67,939.49	0.34%
Instructional Services - Special Education	14,879.58	0.08%	4,492.31	0.02%	2,117.87	0.01%
Local Construction	0.00	0.00%	47,099.83	0.24%	0.00	0.00%
Professional Development	0.00	0.00%	1,666.44	0.01%	0.00	0.00%
Purchasing Support Services	355,414.27	1.94%	394,816.42	2.04%	427,646.20	2.11%
Records Management Services	241,660.19	1.32%	133,768.71	0.69%	91,860.34	0.45%
Research and Evaluation	411,954.71	2.24%	398,225.15	2.06%	421,940.40	2.08%
School Governance and Fiscal Accountability	168,447.59	0.92%	177,207.47	0.91%	99,790.85	0.49%
Scholastic Arts	41,662.36	0.23%	51,555.76	0.27%	48,150.87	0.24%
Special Schools Administration	458,555.79	2.50%	454,239.99	2.34%	437,649.33	2.16%
Superintendent	351,005.24	1.91%	370,258.67	1.91%	505,113.33	2.49%
Technology Cloud Project	0.00	0.00%	287,093.44	1.48%	93,650.99	0.46%
Technology Support Services	2,599,229.72	14.16%	2,397,332.66	12.37%	3,129,814.84	15.45%
Therapy Services	519,800.41	2.83%	226,434.99	1.17%	224,625.00	1.11%
Texas Center Grants Development	132,561.13	0.72%	199,426.75	1.03%	190.26	0.00%
Texas Learns	2,263.74	0.01%	\$0.00	0.00%	0.00	0.00%
<b>Totals</b>	<b>\$18,355,783.45</b>	<b>100.00%</b>	<b>\$19,375,195.35</b>	<b>100.00%</b>	<b>\$20,261,565.78</b>	<b>100.00%</b>

<sup>a</sup> This is not a division. Department-wide includes payments for in-kind matching funds and debt service.

Source: The Department.

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