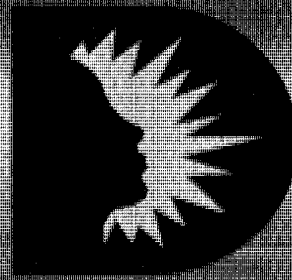


Dallas  
Independent  
School  
District



# Annual Financial Report

For The Fiscal Year Ended  
June 30, 2008

3700 Ross Avenue / Dallas, TX 75204

[www.dallasisd.org](http://www.dallasisd.org)

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For the Fiscal Year Ended June 30, 2008**

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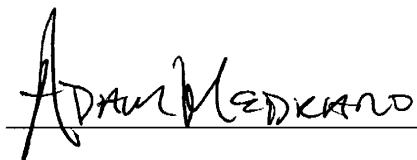
## Certificate of the Board

Dallas Independent School District  
Name of School District

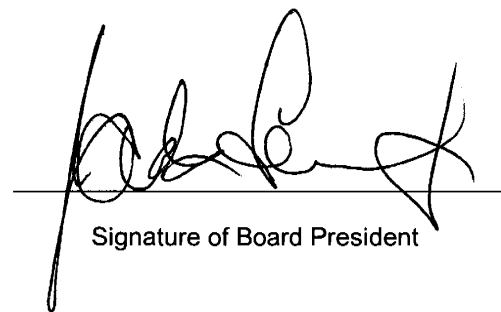
Dallas  
County

057-905-10  
County-District-  
Regional No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the fiscal year ended June 30, 2008, at a meeting of the board of school trustees of such school district on the 18th day of December 2008.

A handwritten signature in black ink, appearing to read "Adam Medrano", written over a horizontal line.

Signature of Board Secretary

A handwritten signature in black ink, consisting of several loops and a long trailing stroke, written over a horizontal line.

Signature of Board President



## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the  
Dallas Independent School District  
Dallas, Texas

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Dallas Independent School District (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dallas Independent School District's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Dallas Education Foundation, a discretely presented component unit of the District as of December 31, 2007 and from inception (July 19, 2006) through December 31, 2007. Those statements were audited by other auditors whose report, dated May 28, 2008, expressed an unqualified opinion on those statements and has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the District, is based solely on the report of the other auditors.

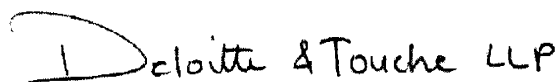
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the Dallas Education Foundation were not audited using *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information and the discretely presented component unit of the Dallas Independent School District, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison schedule – General Fund are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Dallas Independent School District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's respective financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplementary information is the responsibility of Dallas Independent School District's management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Exhibits J-1 through J-5 as required by the Texas Education Agency are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of Dallas Independent School District's management. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the Dallas Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

 Deloitte & Touche LLP

December 19, 2008

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

This section of Dallas Independent School District's (the District's) annual financial report reflects management's discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- On June 30, 2008, the District's assets exceeded its liabilities by \$448,238,618, a decrease of 9.3% over prior year. Of the total net assets, \$101,168,232 is unrestricted.
- The District's governmental activities generated general revenue of \$1,340,295,976 and incurred net expenses of \$1,388,665,622. This decreased net assets by \$48,369,646.
- The General Fund balance decreased \$59,911,990 over prior year to \$60,212,644. The net decrease in fund balance is 4.7% of total General Fund expenditures for the year.
- The District's bonded debt and maintenance tax notes decreased by \$47.7 million over prior year, a decrease of 3.1% during the current fiscal year. No bonds were issued during the fiscal year ended June 30, 2008.
- The District has determined that the Dallas Education Foundation (the "Foundation") is a component unit of the District. The Foundation meets the criteria of GASB Statement No. 39 and is reported as a discretely presented component unit in the District's financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements. The *governmental funds* statements reflect how *general government* services were financed in the *short term* as well as what remains for future spending. The *fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that provide more detailed information regarding the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Exhibit A-1 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section explains the structure and contents of each of the statements.

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

**Exhibit 1  
Major Features of the District's Government-Wide  
and Fund Financial Statements**

<b>Type of Statement</b>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire District's government (except fiduciary funds)	The activities of the District that are not fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	Statement of fiduciary assets and liabilities
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues in the period when use of the resources is required or first permitted by time requirements, or at the same time as the assets if the District has not established time requirements. Resources received or recognized as receivable before the time requirements are met are reported as deferred revenues.	Not applicable to agency fund

**Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's non-fiduciary assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities on the accrual basis regardless of when cash is received or paid.

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

The two government-wide statements report the District's *net assets* and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are comprised of the *Governmental activities*. All of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant maintenance and operations. Property taxes and grants finance most of these activities.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant *funds* rather than the District as a whole. Funds are a governmental accounting tool that the District uses to track specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds*—All of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information immediately following the governmental funds statement that explains the relationship (or differences) between them. These include debt financing and capital projects.
- *Fiduciary funds*—The District is the *fiduciary*, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

##### **Net Assets**

The District's net assets were \$448,238,618 at June 30, 2008. (See Exhibit 2).

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

**Exhibit 2  
Net Assets Schedule  
(in millions of dollars)**

	As of June 30, 2008	As of June 30, 2007
<b>Assets</b>		
Current and other assets	\$ 584.4	\$ 728.4
Capital assets	1,648.2	1,595.3
<b>Total assets</b>	<b>2,232.6</b>	<b>2,323.7</b>
<b>Liabilities</b>		
Long term liabilities	1,493.1	1,494.9
Other liabilities	291.3	332.2
<b>Total liabilities</b>	<b>1,784.4</b>	<b>1,827.1</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	278.5	256.0
Restricted	68.6	81.4
Unrestricted	101.1	159.2
<b>Totals</b>	<b>\$ 448.2</b>	<b>\$ 496.6</b>

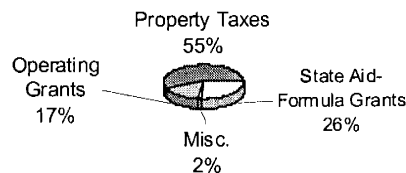
Investment in capital assets (e.g. land, buildings, furniture and equipment), less any related debt used to acquire those assets that are still outstanding is \$278,483,300. The District used these capital assets to provide services to students and these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources because the capital assets aren't available to liquidate these liabilities.

Of the remaining net assets, \$68,587,086 is restricted resources that are subject to external restrictions on how they are used and \$101,168,232 is unrestricted resources that are available to meet the District's ongoing obligations. For the fiscal year ended June 30, 2008, total net assets decreased \$48,369,646 over prior year.

The District spent \$116.2 million in building improvements, land, and equipment, resulting in an increase in capital assets in 2008. The \$144.0 million decrease over prior year, in current and other assets is due primarily to a decrease of \$144.9 in cash and investments, partially offset by an increase in receivables. The increase in receivables was the result of increases in receivables related to state aid and grants.

The District's total revenues were \$1,617,071,633. Approximately 55% of the District's revenue is generated from property taxes, 26% is generated from state aid formula grants, 17% is generated from other operating grants and the remaining two percent is generated from miscellaneous revenue sources. (See Exhibit 3).

**Exhibit 3  
Sources of Revenue for Fiscal Year 2008**



**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

**Exhibit 4  
Schedule of Changes in Net Assets  
(in millions of dollars)**

	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007
Revenues		
Program revenues:		
Operating grants and contributions	\$ 267.0	\$ 263.5
Charges for services	9.8	9.5
General revenues		
Investment earnings	16.5	25.2
Property taxes	887.7	998.9
State aid-formula	424.4	264.9
Grants and contributions, unrestricted	11.7	9.5
Total revenues	<u>1,617.1</u>	<u>1,571.5</u>
Expenses		
Instruction	947.5	842.2
Instruction resources and media services	25.7	28.0
Curriculum and staff development	44.3	43.6
Instructional leadership	24.2	23.9
School leadership	86.2	81.4
Guidance, counseling and evaluation services	59.5	54.2
Social work services	1.5	2.3
Health services	19.2	15.9
Student transportation	19.4	18.5
Food services	73.6	69.2
Cocurricular/extracurricular activities	12.6	11.7
General administration	44.8	36.5
Plant administration and operations	168.9	161.0
Security and monitoring services	17.8	17.5
Data processing services	23.3	22.6
Community services	18.7	23.9
Debt service interest	68.3	76.2
Facilities acquisition and construction	4.9	10.2
Payments to agents/member district-shared services	5.0	3.5
Total expenses	<u>1,665.4</u>	<u>1,542.3</u>
Increase (decrease) in net assets	(48.4)	29.2
Net asset-beginning, as restated	496.6	467.4
Net assets-ending	<u>\$ 448.2</u>	<u>\$ 496.6</u>

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

The total cost of all programs and services was \$1,665,441,279 of which 74% was for instructional and student services, 5% was for school leadership and 10% was for plant maintenance and operations.

The District's net assets decreased \$48,369,646. Exhibit 5 reflects the cost of the District's largest functions as well as the related function's *net cost* (total cost less charges for services generated by the activities and operating grants and contributions for specific services). The net cost reflects what was funded directly by state revenues as well as local tax dollars.

- The net cost of all governmental activities net of related program revenues this year was \$1,388,665,622.
- The District taxpayers provided \$887,709,420 for these activities through property taxes.
- The State of Texas provided \$424,377,425 of school funding based on the State Aid Formula.
- Charges for services to those who directly benefit from the programs were \$9,820,678 and total grants and contributions to specific functions were \$266,954,979.
- The \$8,730,157 decrease in Investment Earnings is due to the declining Federal Reserve target rate from 4.25% to 2%.
- The \$111,263,224 decrease in property tax revenue and \$159,522,993 increase in state aid funding are the result of changes to the state aid funding formula and the change in property tax rates.
- Instructional expenses increased \$117,880,140 primarily due to a 3% average pay raise and the net increase of 1,212 employees.
- The \$8,294,495 increase in General administration costs was due to increased salary costs.
- The higher utility costs paid by the District attributed to the \$7,886,311 increase in Plant administration and maintenance.
- Debt service interest decreased \$7,833,136 due to the related decrease in outstanding debt.

**Exhibit 5  
Net Cost of Selected Functions  
(in millions of dollars)**

	Total Cost of Services		Net Cost of Services	
	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007	For the Year Ended June 30, 2008	For the Year Ended June 30, 2007
Instruction	\$ 947.5	\$ 842.2	\$ (819.1)	\$ (726.8)
School leadership	86.2	81.4	(83.2)	(79.7)
Food services	73.6	69.2	(1.4)	(0.2)
Plant maintenance and operations	168.9	161.0	(167.0)	(157.7)

**Other Financial Highlights**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues reported in governmental funds totaled \$1,615,208,592.

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

At the end of the current fiscal year, the District's governmental funds reported ending fund balances of \$261,290,014. Of this amount, \$51,252,928 constitutes unreserved fund balance available for use in activities at the District's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to bond projects, debt service and other obligations of the District.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$43,623,687. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and total fund balance to the total fund expenditures. Unreserved fund balance represents 3.4% of the total General Fund expenditures, while total fund balance represents 4.7% of that same amount.

The District's General Fund balance decreased \$59,911,990 due primarily due to a \$116,401,379 increase in expenditures offset by \$42,511,024 increase in revenue. The revenue increase is the result of the change in the state aid funding formula and corresponding change in property tax rates.

The Debt Service Funds has a total fund balance of \$76,896,518 all of which is reserved for the payment of debt service. The Capital Projects Fund balance decreased by \$85,133,562 to \$101,736,405 primarily due to facilities acquisition and construction cost of \$88,317,141. Non-major governmental funds have a total fund balance of \$22,444,447 representing a decrease for the current year of \$12,328,870, primarily due to a decrease in local revenue.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year ended June 30 2008, the District amended the operating budget on a monthly basis. After these adjustments, budgeted expenditures exceeded budgeted revenues by \$18,160,490 in the final amended budget. Actual expenditures exceeded actual revenues by \$59,911,990.

This was the result of the hiring of more staff than anticipated by the budget. In addition, Instruction and school leadership costs increased due to the salary modification by the Legislature. Also the District incurred higher than anticipated plant maintenance and operations costs due to higher utility costs caused by higher oil prices.

Prior to 2007-2008, funding for the administration of the Benefits Program was coded to General Administration. In fiscal year 2008, the funding was moved to the appropriate function to reflect the proportion of staff in each function.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of fiscal year 2008, the District had \$1,648.2 million of capital assets, net of depreciation, including land, equipment, buildings, and vehicles. This amount represents a net increase of \$52.9 million or 3.3% over last year. (See Exhibit 6.)

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

**Exhibit 6  
Capital Assets**  
(in millions of dollars)

	As of June 30, 2008	As of June 30, 2007
Land	\$ 152.7	\$ 150.1
Buildings and improvements	2,180.0	2,012.9
Furniture and equipment	194.6	173.0
Construction in progress	26.8	105.5
Totals at historical cost	<u>2,554.1</u>	<u>2,441.5</u>
Total accumulated depreciation	(905.9)	(846.2)
Totals	<u><u>\$ 1,648.2</u></u>	<u><u>\$ 1,595.3</u></u>

The District's fiscal year 2008 capital spending totaled \$116.2 million in buildings and improvements and capital equipment. During this period, the District was engaged in the completion of 1 new facility, 1 addition to an existing school, and renovations to 12 existing schools. The total construction commitments are \$3,846,457 as of June 30, 2008. For more information on the District's capital assets see note G in the financial statements.

At year-end, the District had \$1,490.0 million in long-term debt outstanding as shown in Exhibit 7 below. Bonds payable and notes payable decreased \$47.7 million, resulting from normal repayment of debt. The District's bonds presently carry ratings as follows: Moody's Investor Services "Aaa" and Standard & Poors "AAA", as guaranteed by the Permanent School Fund (PSF). The District's underlying bond ratings are Moody's "Aa3" and S&P "AA". For more detailed information on the District's debt outstanding see note I to the financial statements.

**Exhibit 7  
Long Term Debt**  
(in millions of dollars)

	As of June 30, 2008	As of June 30, 2007
Capital leases payable	\$ -	\$ 2.3
Bonds payable and notes payable	1,449.9	1,497.6
Workers compensation	9.5	11.7
Deferred loss on refunding	(6.3)	(6.7)
Premium on bonds	36.9	42.5
Totals	<u><u>\$ 1,490.0</u></u>	<u><u>\$ 1,547.4</u></u>

**Dallas Independent School District  
Management's Discussion and Analysis (Unaudited)  
For the Fiscal Year Ended June 30, 2008**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District determined in September 2008, that for fiscal year ended June 30, 2008, the District had a deficit in its General Fund of \$59.9 million. Such deficiency was primarily a result of the employment of significantly more staff in 2007-08 than was reflected in the budget.

Because the 2007-08 deficit was not determined until after the 2008-09 budget was adopted, the underestimation of expenditures was carried forward to the 2008-09 budget. As a result, if no actions were taken, the District estimated that the 2008-09 operating results would be a deficit of at least \$74 million. On September 19, 2008, the Board of Trustees declared a financial exigency and on October 2, 2008 approved a reduction in force (the "RIF"). As a result of the RIF, early retirements and other budget actions, the District currently estimates a deficit in 2008-09 of approximately \$25 to \$30 million. The District continues to review other actions to further reduce the 2008-09 budget deficit.

The District expects that any general fund deficits in 2008-09 will be paid out of the District's fund balance.

On August 11, 2008, the District issued \$125 million in Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. The TANS are due on February 15, 2009.

On September 30, 2008, the District issued \$20 million in Maintenance Tax Notes that were issued for the purpose of paying contractual obligations incurred for vehicles and preparation and installation of a student software and hardware system. The Maintenance Tax Notes are due in annual installments through 2015.

On December 11, 2008, the District issued the Unlimited Tax School Building Bonds, Series 2008 for \$393,325,000 to construct, equip and renovate school buildings in the District. The Bonds have various maturity dates beginning in 2010 through 2034 with an interest range between 5% and 6.25%.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Department.

**Dallas Independent School District  
Government-Wide Statement of Net Assets  
June 30, 2008**

Exhibit A-1

Data Control Codes		Total Primary Government Governmental Activities June 30, 2008	Component Unit December 31, 2007
	Assets:		
1110	Cash and cash equivalents	\$ 342,412,549	\$ 1,072,810
1120	Investments	2,800,357	-
1225	Property taxes receivable, net	49,754,760	-
1240	Due from other governments	166,574,897	-
1250	Accrued interest receivable	102,913	-
1260	Due from agency funds	632,801	-
1290	Other receivables, net	4,039,735	4,073,505
1300	Inventories	8,177,144	-
1490	Other current assets	904,336	520
1420	Bond issuance cost, net	9,043,336	-
	Capital assets, net:		
1510	Land	152,673,664	-
1520	Buildings and Improvements, net	1,424,423,057	-
1530	Furniture and equipment, net	44,191,403	-
1580	Construction in progress	26,867,488	-
1000	Total assets	<u>2,232,598,440</u>	<u>5,146,835</u>
	Liabilities:		
2110	Cash overdraft	19,899,113	-
2110	Accounts payable	37,042,224	25,810
2150	Payroll deductions and withholdings	27,916,825	-
2160	Accrued wages and benefits payable	147,176,211	-
2180	Due to other governments	8,789,431	-
2200	Accrued liabilities	21,952,999	-
2300	Unearned revenue	1,283,817	-
2430	Interest payable	27,209,109	-
	Long-term liabilities-due within one year:		
2121	Bonds and notes payable	42,218,488	-
2123	Workers compensation	2,699,372	-
	Long-term liabilities-due beyond one year:		
2210	Workers compensation	6,892,439	-
2510	Bonds and notes payable	1,407,652,428	-
2511	Deferred loss on refunding of bonds	(6,343,002)	-
2512	Premium on bonds	36,924,139	-
2590	Arbitrage payable	3,046,229	-
2000	Total liabilities	<u>1,784,359,822</u>	<u>25,810</u>
	Net assets:		
3200	Invested in capital assets, net of related debt	278,483,300	-
3800	Restricted for:		
	Capital Projects	3,214,256	-
	Debt Service	49,687,409	-
	Food Service	15,685,421	-
	Component Unit-Program Grants	-	5,115,505
3900	Unrestricted	101,168,232	5,520
3000	Total net assets	<u>\$ 448,238,618</u>	<u>\$ 5,121,025</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District  
Government-Wide Statement of Activities  
For the Year Ended June 30, 2008**

Exhibit B-1

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities Year Ended June 30, 2008	Component Unit Inception to December 31, 2007
	Primary government governmental activities:					
11	Instruction	\$ 947,516,694	\$ 271,726	\$ 128,139,394	\$ (819,105,574)	
12	Instructional resources and media services	25,681,473	-	919,684	(24,761,789)	
13	Curriculum and staff development	44,295,242	-	29,356,078	(14,939,164)	
21	Instructional leadership	24,228,778	-	5,703,868	(18,524,910)	
23	School leadership	86,231,024	-	2,994,654	(83,236,370)	
31	Guidance, counseling, and evaluation services	59,463,862	-	12,915,637	(46,548,225)	
32	Social work services	1,479,906	-	-	(1,479,906)	
33	Health services	19,176,368	-	2,838,326	(16,338,042)	
34	Student transportation	19,367,604	-	1,411,037	(17,956,567)	
35	Food services	73,587,637	7,737,771	64,428,263	(1,421,603)	
36	Cocurricular/extracurricular activities	12,614,693	765,089	570,349	(11,279,255)	
41	General administration	44,792,325	-	1,936,200	(42,856,125)	
51	Plant maintenance and operations	168,887,599	1,046,092	811,026	(167,030,481)	
52	Security and monitoring services	17,843,175	-	243,306	(17,599,869)	
53	Data processing services	23,343,511	-	533,615	(22,809,896)	
61	Community services	18,747,992	-	10,715,823	(8,032,169)	
71	Interest on long-term debt	68,332,722	-	-	(68,332,722)	
81	Facilities acquisition and construction	4,859,998	-	3,437,719	(1,422,279)	
95	Payments to juvenile justice alternative education	634,959	-	-	(634,959)	
97	Payments to tax increment fund	4,355,716	-	-	(4,355,716)	
	Total	\$ 1,665,441,279	\$ 9,820,678	\$ 266,954,979	\$ (1,388,665,622)	
	Component unit:					
	Dallas Education Foundation	\$ 202,909	-	\$ 5,323,711		\$ 5,120,802
	General revenues:					
	Taxes:					
	Property taxes, levied and collected for general purposes				\$ 769,724,223	-
	Property taxes, levied and collected for debt service				117,985,197	-
	State aid-formula grants not restricted to specific programs				424,377,425	-
	Grants and contributions not restricted to specific programs				11,738,655	-
	Investment earnings				16,470,476	223
	Total general revenues and special item				1,340,295,976	5,121,025
	Change in net assets				(48,369,646)	5,121,025
	Net assets—beginning				496,608,264	-
	Net assets—ending				\$ 448,238,618	\$ 5,121,025

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District  
Balance Sheet  
Governmental Funds  
June 30, 2008**

Exhibit C-1

Data Control Codes		General Fund	Debt Service Fund	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
1110-50	Cash and cash equivalents	\$ 132,062,049	\$ 75,561,619	\$ 132,268,286	\$ 2,520,595	\$ 342,412,549
1120	Investments	2,800,357	-	-	-	2,800,357
1210-30	Receivables, net	44,126,455	5,628,305	-	-	49,754,760
1250	Accrued interest	101,744	-	82	1,087	102,913
1260	Due from other funds	28,024,070	-	562,208	42,850,226	71,436,504
1240	Receivables from other governments	160,999,338	324,222	5,251,337	-	166,574,897
1290	Other receivables, net	274,882	-	-	3,764,853	4,039,735
1300	Inventories	5,015,630	-	-	3,161,514	8,177,144
1490	Other current assets-prepaid expenses	904,336	-	-	-	904,336
	<b>Total assets</b>	<b>\$ 374,308,861</b>	<b>\$ 81,514,146</b>	<b>\$ 138,081,913</b>	<b>\$ 52,298,275</b>	<b>\$ 646,203,195</b>
<b>Liabilities and fund balances:</b>						
<b>Liabilities:</b>						
2110	Cash overdraft	\$ 19,899,113	\$ -	\$ -	\$ -	\$ 19,899,113
2110	Accounts payable	27,446,326	-	5,916,391	3,679,507	37,042,224
2150	Payroll deductions & withholdings	25,808,810	-	122	2,107,893	27,916,825
2160	Accrued wages and benefits payable	133,359,342	-	3,641	16,512,600	149,875,583
2170	Due to other funds	42,850,226	162,615	27,044,468	746,394	70,803,703
2180	Payable to other governments	6,662,763	-	3,046,229	2,126,668	11,835,660
2200	Accrued liabilities	21,395,214	-	334,657	223,128	21,952,999
2300	Deferred/Unearned revenue	36,674,423	4,455,013	-	4,457,638	45,587,074
	<b>Total liabilities</b>	<b>314,096,217</b>	<b>4,617,628</b>	<b>36,345,508</b>	<b>29,853,828</b>	<b>384,913,181</b>
<b>Fund balances:</b>						
<b>Reserved for:</b>						
3410	Inventories	5,015,630	-	-	2,291,299	7,306,929
3430	Prepaid expenses	904,336	-	-	-	904,336
3440	Encumbrances	10,668,991	-	13,765,260	-	24,434,251
3420	Debt service	-	76,896,518	-	-	76,896,518
3470	Capital projects	-	-	87,971,145	-	87,971,145
3450	Food services	-	-	-	13,394,122	13,394,122
<b>Unreserved:</b>						
3590	Designated - Campus Activity Fund	-	-	-	2,263,529	2,263,529
3600	Undesignated - General Fund	43,623,687	-	-	-	43,623,687
3600	Undesignated - Special Revenue Funds	-	-	-	4,495,497	4,495,497
	<b>Total fund balances</b>	<b>60,212,644</b>	<b>76,896,518</b>	<b>101,736,405</b>	<b>22,444,447</b>	<b>261,290,014</b>
	<b>Total liabilities and fund balances</b>	<b>\$ 374,308,861</b>	<b>\$ 81,514,146</b>	<b>\$ 138,081,913</b>	<b>\$ 52,298,275</b>	<b>\$ 646,203,195</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District**  
**Reconciliation of the Governmental Funds Balance Sheet to the**  
**Government-Wide Statement of Net Assets**  
**June 30, 2008**

Exhibit C-1R

Total fund balances--governmental funds (from C-1)	\$ 261,290,014
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	1,648,155,612
Some liabilities, including bonds payable, and claims and judgments are not due and payable in the current period and, therefore are not reported in the funds:	
Bonds and notes payable	(1,449,870,916)
Deferred losses on refundings	6,343,002
Premium on bonds	(36,924,139)
Long-term workers compensation	<u>(6,892,439)</u>
	(1,487,344,492)
Interest payable is recognized when due at the fund level, but is recognized currently under the accrual method of accounting.	(27,209,109)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.	44,303,257
Bond issue costs are recognized currently at the fund level, but are deferred costs under the full accrual method of accounting.	9,043,336
Total net assets--governmental activities (see A-1)	<u><u>\$ 448,238,618</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District**  
**Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances Governmental Funds**  
**For the Year Ended June 30, 2008**

Exhibit C-2

Data Control Codes		General Fund	Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues:						
5700	Local and intermediate sources	\$ 783,499,016	\$ 119,950,744	\$ 7,206,552	\$ 17,579,566	\$ 928,235,878
5800	State program revenues	424,377,425	-	-	42,764,368	467,141,793
5900	Federal program revenues	5,482,106	-	-	214,348,815	219,830,921
	Total revenues	<u>1,213,358,547</u>	<u>119,950,744</u>	<u>7,206,552</u>	<u>274,692,749</u>	<u>1,615,208,592</u>
Expenditures:						
Current:						
11	Instruction	780,847,577	-	-	128,072,642	908,920,219
12	Instructional resources and media services	22,704,483	-	30,698	921,138	23,656,319
13	Curriculum and staff development	14,989,248	-	-	29,327,316	44,316,564
21	Instructional leadership	18,644,277	-	-	5,614,372	24,258,649
23	School leadership	81,830,064	-	-	2,994,654	84,824,718
31	Guidance, counseling, and evaluation services	46,491,738	-	-	12,891,055	59,382,793
32	Social work services	1,481,390	-	-	-	1,481,390
33	Health services	16,189,560	-	-	2,637,775	19,027,335
34	Student transportation	17,530,741	-	-	1,411,037	18,941,778
35	Food services	-	-	-	69,550,687	69,550,687
36	Cocurricular/extracurricular activities	10,655,150	-	-	390,558	11,045,708
41	General administration	43,516,700	-	-	1,908,792	45,425,492
51	Plant maintenance and operations	161,398,750	-	52,608	3,128,927	164,580,285
52	Security and monitoring services	18,589,575	-	-	240,938	18,830,513
53	Data processing services	21,762,482	-	3,939,667	529,314	26,231,463
61	Community services	8,074,500	-	-	10,746,566	18,821,066
Debt service:						
71	Principal on long-term debt	2,979,830	49,819,100	-	-	52,798,930
71	Interest on long-term debt	118,244	72,226,330	-	-	72,344,574
Capital outlay:						
81	Facilities acquisition and construction	475,553	-	88,317,141	16,455,848	105,248,542
Intergovernmental charges:						
95	Payments for juvenile justice alternative education	634,959	-	-	-	634,959
97	Payments to tax increment fund	4,355,716	-	-	-	4,355,716
	Total expenditures	<u>1,273,270,537</u>	<u>122,045,430</u>	<u>92,340,114</u>	<u>287,021,619</u>	<u>1,774,677,700</u>
	Net change in fund balances	(59,911,990)	(2,094,686)	(85,133,562)	(12,328,870)	(159,469,108)
	Fund balances-beginning	120,124,634	78,991,204	186,869,967	34,773,317	420,759,122
	Fund balances-ending	<u>\$ 60,212,644</u>	<u>\$ 76,896,518</u>	<u>\$ 101,736,405</u>	<u>\$ 22,444,447</u>	<u>\$ 261,290,014</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances Governmental Funds  
to the Statement Activities  
For the Year Ended June 30, 2008**

Exhibit C-3

Net change in fund balances--total governmental funds (from C-2)	\$ (159,469,108)
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$116,186,514) exceeded depreciation (\$63,292,588) in the current period.	52,893,926
Repayment of bonds, loans, and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	52,716,853
Installment obligations provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(2,508,369)
Accrued interest expense at the government wide level does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds.	46,036
Workers compensation expenses at the government wide level do not require the use of current financial resources and therefore are not reported as expenditure in governmental funds.	1,542,150
Bond issue costs, premium on bond, and deferred losses on refunding are expensed at fund level but are deferred and amortized over the life of the related debt at the government-wide level.	4,765,948
Interest accretion on capital appreciation bonds and maintenance tax notes.	(220,123)
Some property taxes and pledged construction donations will not be collected within 60 days and, therefore they are not considered available revenues and are deferred in governmental funds. Deferred revenue increased by this amount from the prior year.	1,863,041
Change in net assets of governmental activities (B-1)	<u><u>\$ (48,369,646)</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District**  
**Statement of Fiduciary Assets and Liabilities**  
**Fiduciary Funds**  
**June 30, 2008**

Exhibit E-1

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 4,153,540
Total assets	<u>\$ 4,153,540</u>
Liabilities	
Accounts Payables	\$ 21,590
Due to General Fund	632,801
Due to student groups	3,499,149
Total liabilities	<u>\$ 4,153,540</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

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**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Board of Trustees (the "Board") consists of nine members and has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dallas Independent School District (the "District"). The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding sources. The Board is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, issued by Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

For financial reporting purposes, in conformance with governmental accounting standards, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. By applying the criteria set forth in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, the District has determined that the Dallas Education Foundation (the "Foundation") is a component unit of the District. The District has determined that the Dallas Education Foundation ("the Foundation") is a component unit of the District. Component units meeting the criteria of GASB Statement No. 39 are reported as a discretely presented component unit in the District's financial statements.

The Foundation is a Texas non-profit corporation organized to unite the community and its resources, including individual, corporate and foundation philanthropy, to accomplish key District priorities. The Foundation is operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. All funds, whether income or principal, and whether acquired by gift or contribution are devoted to the charitable purpose. The Foundation collaborates with the District to achieve the mutual goals of the District, the Foundation and donors. The Foundation is governed by an 18 member Board of Directors, who represents a cross section of the community served by the District. The District Superintendent of Schools serves as an ex-officio member. The other members are independent of the District.

The District paid the first year salaries and other expenses of the Foundation. In the future, the District has no other financial commitment to the Foundation. Additionally; the Foundation reimbursed the District for Foundation program costs that were incurred by the District. There were no other significant transactions between the District and the Foundation.

There are significant differences between the District and Foundation revenue recognition methodologies. Pursuant to the Foundation's accounting policies, the Foundation records unconditional promises to give that are expected to be collected within one year at the net realizable value. A copy of the complete, separately audited financial statements as of and for the period from inception (July 19, 2006) through December 31, 2007 can be obtained from Dallas Education Foundation at 3700 Ross Avenue, Box 108, Dallas, Texas 75204.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements does not eliminate services provided and used in the process of consolidation. Governmental activities are mainly supported by tax revenues and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational requirements of a particular function. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Basis of Accounting/Measurement Focus**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. The fiduciary fund financial statement does not have a measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized, when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, arbitrage, and claims and judgments, are recorded only when matured and payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Property tax revenues and revenues received from the State of Texas and investment earnings are considered to be susceptible to accrual and so have been recognized as revenues in the current period. Property taxes collected within 60 days of year-end and included in revenue were \$7,646,218 and \$1,173,293 for the General Fund and Debt Service Funds, respectively.

Grant revenues and contributions are recognized when all eligibility requirements have been met. Grant funds received in advance are recorded as deferred revenue until earned. Contributions received with purpose restrictions are recorded as revenue and related fund balance is designated until restrictions are satisfied. Program revenues include (1) charges to customers who directly benefit from the services provided by that function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. The Texas Education Agency, through its application of state law, allocates state revenues to school districts by formula allocation. The District receives two allocations, a per capita allocation and a foundation program allocation. The District also recognizes revenues for the state's share of the contributions to the Teacher Retirement System of Texas. See Note K for additional information on the employee's retirement plan. Other state revenues are received through other state miscellaneous programs on an allocated basis. Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

The District has accrued Foundation School Program revenues of approximately \$69,468,026 to reflect cash that will be received in fiscal year 2009, which was generated by attendance and related expenditures in fiscal year 2008.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

The Debt Service Funds, a budgeted fund, accounts for the use of ad valorem taxes and other revenues collected for the purposes of retiring bond principal and paying interest when due. The Debt Service Funds does not meet the quantitative criteria of a major fund, however, due to the qualitative significance of the fund, management has decided to present it as a major fund.

The Capital Projects Fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following non-major fund types:

Special revenue funds are used to account for food services activities, Federal and state financed programs and other local programs where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain the integrity of the various sources of funds. The budget for the Food Services Fund is adopted by the Board each fiscal year.

Agency Fund is a fiduciary fund that is custodial in nature (assets equals liabilities) and is used to account for the activities of student groups. The student activity groups exist with the explicit approval of, and are subject to revocation, by the Board.

Amounts reported as program revenues include operating grants and contributions, food services user charges, and rentals and tuition. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Assets, Liabilities and Net Assets**

**Cash, Cash Equivalents and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. All investments in pools are considered cash equivalents.

Investments are recorded at fair value and can consist of certificates of deposit, U.S. Treasury instruments, U.S. Government agency obligations, repurchase agreements and investments in local government public fund investment pools. Fair value is determined by the amount by which a financial instrument could be exchanged in a current transaction between willing parties. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. Statutes authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, obligations of certain U.S. Government agencies, certificates of deposit, money market savings accounts, certain municipal securities repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 of the Texas Government Code and Section 45-209 of the Texas Education Code.

**Interfund Transaction and Receivables and Payables**

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations. Such balances are eliminated within the governmental and business type activities for the government-wide financial statements.

**Property Taxes**

Property taxes are levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes and historical experience of adjustments to tax receivables.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Inventories and Prepaid Items

The consumption method is used to account for inventories of supplies and materials. Under this method, these items are carried in an inventory account of the respective fund at cost, using the weighted average method of accounting and are subsequently charged to expenditures when consumed or requisitioned. Although food commodities are received at no cost, their fair value is supplied by the Texas Department of Agriculture and is recorded as inventory on the date received.

In the governmental funds, a reserved fund balance indicates that they are unavailable as current expendable financial resources that offset reported inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve the portion of the applicable appropriation, is employed in the governmental fund financial statements. Encumbrances which have not been liquidated are reported as designations of fund balance since they do not constitute expenditures or liabilities. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2008.

Government-Wide Net Assets

Invested in capital assets, net of related debt – component of net assets represents capital assets, less capital debt plus unspent bond proceeds of \$278,483,300.

Restricted for capital projects – funds contributed and restricted for capital construction liabilities of the Capital Projects Fund that consists of assets with constraints placed on their use by the bond covenants of \$3,214,256.

Restricted for debt service – the component of net assets that reports the difference between assets and liabilities of the Debt Service Funds net of accrued interest at June 30, that consists of assets with constraints placed on their use by the bond covenants of \$49,687,409.

Restricted for food service – the component of net assets that reports the difference between assets and liabilities of the Food Services Fund that consists of assets with constraints placed on their use by the Department of Agriculture and Texas Education Agency ("TEA") of \$15,685,421.

Unrestricted – the difference between the assets and liabilities that is not reported in net assets invested in capital assets, net of related debt, net assets restricted for debt service, and net assets restricted for food service of \$101,168,232.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Governmental Funds-Reserved Fund Balances

Certain resources of the governmental funds are set aside for the repayment or use of specific programs. These reservations can be identified as follows:

	<u>Governmental Funds/Reserved Fund Balances</u>
Food service	\$ 13,394,122
Debt service	76,896,518
Capital projects	87,971,145
Encumbrances	24,434,251
Inventories and prepaids	8,211,265
Total	<u>\$ 210,907,301</u>

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Construction cost includes direct and all indirect costs. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized, and land and construction in progress are not depreciated. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

	<u>Years</u>
Buildings	45
Building improvements	20
Portable buildings	20
Tractors and construction equipment	12
Kitchen equipment	10
Other-furniture, fixtures and equipment	10
Buses/trucks/vans	7
Mainframes/servers/telephone systems	7
Vehicles	5
Technology equipment	3
Software	3
Musical instruments	3

Compensated Absences

Certain employees are entitled to receive accrued vacation and compensatory pay in a lump-sum cash payment upon termination of employment with the District. The amount of \$1,695,742 (wages and benefits) represents the recorded liability for employees vested in accumulated vacation and compensatory pay. The General Fund and Special Revenue Funds are used to liquidate compensated absences.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Cost of issuance, as well as gains or losses on refunding, are capitalized and amortized over the shorter of the life of the new issuance or the life of the existing debt using the straight-line interest method, which approximates the interest method. Premiums and discounts are amortized over the life of the related debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Data Control Codes

In accordance with the Financial Accountability System Resource Guide, Texas Education Agency, the District has adopted and installed an accounting system, which meets the minimum requirements prescribed by the State Board of Education and has been approved by the State Auditor. The TEA requires the display of these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS**

District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the Federal Reserve Bank of Dallas, the District's agent bank, approved pledged securities, as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC"). In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

The cash overdraft of \$19,899,113 reported by the District at June 30, 2008 represents checks recorded in the District's financial statements but not presented at the bank. At June 30, 2008, the net carrying amount of the District's cash deposits, excluding student activity fund deposits of \$2,190,862, was \$1,452,289. The bank balance of \$1,618,970 was on deposit with the contracted depository bank. Total District funds on deposit were secured by FDIC coverage of \$200,000 and by pledged United States government securities with a fair value of \$2,267,364 at June 30, 2008, held by the Federal Reserve Bank of Boston. Because the Federal Reserve Bank of Dallas holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. Secondary campuses activity funds were centralized and are now on deposit with the contracted depository. Non-centralized agency and activity funds are in separate bank accounts in the name of the schools, and as such, have FDIC insurance of \$100,000 per bank account. A total of \$2,190,862 Agency Funds cash was on deposit with the contracted depository and separate bank accounts.

The District's component unit had an unrestricted cash balance of \$72,810 and restricted cash of \$1,000,000. The component unit places its temporary cash investments with creditworthy, high quality financial institutions. These cash investments from time to time exceed federally insured limits.

The District's Agency Fund bank balance on June 30, 2008, was covered by federal depository insurance or by collateral held in the District's name. In addition, the following is disclosed regarding coverage of combined cash and certificates of deposit balances on the date of highest deposit:

- a.) Depository bank: Bank of America, N.A.
- b.) The date of highest deposit was October 2, 2007, with combined cash and certificates of deposit balance of \$2,396,246.
- c.) On October 2, 2007, the amount of bonds, securities pledged, and FDIC coverage was \$2,649,229.
- d.) The FDIC coverage portion of the collateral listed above was \$200,000.
- e.) The District had no occasions during the year of not being sufficiently collateralized, in which the pledged collateral requirement was less than the collateral requirement.

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less

**Dallas Independent School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2008**

- Fully collateralized repurchase agreements,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A", or its equivalent, by a nationally recognized investment rating firm,
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above and
- Bonds issued, assumed or guaranteed by the State of Israel were added by H.B. 3009, and was effective September 1, 1999.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are no more restrictive than state statutes.

As of June 30, 2008, the following are the District's cash equivalents and investments, with respective maturities and credit quality:

Type of Investment	Fair Value	Percent	Maturity Amount	Maturity in 0-6 Months	Credit Rating S&P/Moody's
Money markets, mutual funds and overnight repurchase agreements	\$ 46,174,893	13.2%	\$ 46,174,893	\$ 46,174,893	AAA/Aaa
Investment pools:					
MBIA Texas Class	153,221,274	43.9%	153,221,274	153,221,274	AAA/Aaa
LOGIC	25,943,805	7.4%	25,943,805	25,943,805	AAA/Aaa
Lone Star	96,368,878	27.6%	96,368,878	96,368,878	AAA/Aaa
TexPool	10,462,672	3.0%	10,462,672	10,462,672	AAA/Aaa
TexasDAILY	10,751,415	3.1%	10,751,415	10,751,415	AAA/Aaa
Total Investment pools	296,748,044	84.9%	296,748,044	296,748,044	
Cash	3,643,151	1.0%	3,643,151	3,643,151	N/A
Total cash and cash equivalents	346,566,087	99.2%	346,566,088	346,566,088	
Securities:					
Other	2,800,357	0.8%	2,844,277	2,844,277	* N/A
Total Investments	2,800,357	0.8%	2,844,277	2,844,277	
Total cash, cash equivalents and investments	\$ 349,366,444	100.0%	\$ 349,410,365	\$ 349,410,365	
Overdrafts	\$ 19,899,113		\$ 19,899,113	\$ 19,899,113	

\* The maturity date for Securities-Other is May 2015

As required by GASB Statement No. 31, the District recognizes the unrealized gain/loss on investments with a maturity date greater than one year from the acquisition date and investments that are callable. As of June 30, 2008, the remaining cash equivalents and securities in the District's portfolio all had maturity dates of less than one year from their acquisition date.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Interest Rate Risk: In accordance with the District's investment policy, investments are made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a twelve month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District's investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Credit Risk: State law limits investments in commercial paper to not less than A1-P1 or equivalent rating by at least two nationally recognized credit rating agencies. As of June 30, 2008, the District had no commercial paper in its portfolio. The District's investments in Local Government Public Fund Investment Pools ("LGIP's") include: MBIA Texas Class, LOGIC, Lone Star, TexPool and TexasDAILY. These are all public funds investment pools and money markets operating in full compliance with the Public Funds Investment Act of 1940 (the "1940 Act"). These pools are operated in a manner consistent with SEC Rule 2a-7 of investment company Act of 1970. All are rated "AAA" money market funds by Standard and Poor's. Columbia Money Market Reserves is a no-load money market fund that maintains weighted-average maturity of 90-days or less. This money market fund invests only in first-tier securities. Under SEC Rule 2a-7 of the 1940 Act, a first-tier security is a debt instrument that is an eligible investment for money market funds and has received a rating in the highest short-term category from a nationally recognized statistical rating organization. The District utilizes Columbia Money Market Reserves for money market investments and Bank of America N.A. for the daily operating funds.

Concentration of Credit Risk: The District's investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity or specific issuer. Less than five percent of the District's investments are invested in securities as of June 30, 2008.

Custodial Credit Risk – deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. During the fiscal year, all deposits held in the depository bank, Bank of America, were fully collateralized.

Custodial Credit Risk – investments: This is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Flexible repurchase investments were held by third parties and were fully collateralized and held in the District's name.

Foreign Currency Risk: As of June 30, 2008, there are no foreign investments in the District's portfolio.

The District has established a \$20,000,000 line of credit with Bank of America N.A., which is available for seasonal borrowing needs from November 1 to January 31 of each year. Interest on amounts owed is assessed at the Bank of America, N.A. prime rate. The District has not utilized this line of credit during the last eight fiscal years.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE C: LOCAL REVENUES AND PROPERTY TAXES**

Local revenues are comprised of the following:

	General Fund	Debt Service Fund	Capital Project Fund	Non-Major Fund	Total Governmental Funds
Property taxes	\$ 769,724,223	\$ 117,985,197	\$ -	\$ -	\$ 887,709,420
Food services	-	-	-	7,737,771	7,737,771
Interest income	7,703,983	1,965,547	6,800,945	565,398	17,035,873
Tuition, fees and cocurricular	2,157,527	-	-	-	2,157,527
Gifts and bequests	-	-	-	4,994,638	4,994,638
Other	3,913,283	-	405,607	4,281,759	8,600,649
<b>Totals</b>	<b>\$ 783,499,016</b>	<b>\$ 119,950,744</b>	<b>\$ 7,206,552</b>	<b>\$ 17,579,566</b>	<b>\$ 928,235,878</b>

**Property Taxes**

The District's ad valorem property tax is levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the roll on January 1, 2007 was \$77,232,250,745. After deductions of all exemptions and reductions provided by law and those granted by the District, the levy for the 2008 fiscal year was based on property values of \$76,757,349,728.

The tax rates assessed for the year ended June 30, 2008, to finance General Fund operations and the payment of principal and interest on long-term debt were \$1.04005 and \$0.159593 per \$100 valuation, respectively, for a total of \$1.199643 per \$100 valuation. The resolution levying the ad valorem taxes specifies the individual tax rates for the General Fund and Debt Service Funds. Current tax collections for the year ended June 30, 2008, were 97.4% of the tax levy.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District has provided an allowance for estimated uncollectible property taxes and estimated adjustments within the General Fund and Debt Service Funds of \$40,067,990 and \$3,680,051 respectively based upon historical collection experience and historical experience of adjustments to tax receivables. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas State Legislature.

The City of Dallas has established 16 Tax Increment Financing Zones as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The City of Farmers Branch has established one Tax Increment Finance Zone as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The District currently participates financially in four of the City of Dallas Tax Increment Financing Zones and the City of Farmers Branch Tax Increment Financing Zone.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

The captured property values and property taxes payable to the Tax Increment Financing Zones are summarized as follows:

	Captured Values	Taxes Collected/ Paid (\$1.04005/\$100)
City of Dallas:		
Cityplace Tax Incremental Financing District	\$ 410,660,289	\$ 1,756,970
Oak Cliff Gateway Tax Incremental Financing District	37,571,670	316,447
Cedars Tax Incremental Financing District	27,210,728	163,216
Sports Arena Tax Incremental Financing District	362,909,970	2,114,635
City of Farmers Branch: Tax Incremental Financing District #1	295,999	4,448
Totals	<u>\$ 838,648,656</u>	<u>\$ 4,355,716</u>

**NOTE D: RECEIVABLES**

Receivables as of June 30, 2008, for the District's major funds and non-major funds in the aggregate including the applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Non-Major	Totals
Property taxes	\$ 84,194,444	\$ 9,308,356	\$ -	\$ -	\$ 93,502,800
Due from other governments	160,999,338	324,222	5,251,337	-	166,574,897
Accrued interest	101,744	-	82	1,087	102,913
Other receivables	274,883	-	-	3,764,853	4,039,736
Less: Allowance for uncollectible	(40,067,990)	(3,680,051)	-	-	(43,748,041)
Totals	<u>\$ 205,502,419</u>	<u>\$ 5,952,527</u>	<u>\$ 5,251,419</u>	<u>\$ 3,765,940</u>	<u>\$ 220,472,305</u>

The amount due from other governments represents payments due from the TEA and other governmental entities for grants entitlements and foundation revenue.

The \$4,073,505 component unit receivables include \$3,070,000 for unconditional promises due in less than one year and \$1,070,000 to be collected in one to five years, less a discount of \$66,495.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE E: DEFERRED/UNEARNED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of fiscal year 2008, the various components of deferred and unearned revenue reported in the General Fund, Debt Service Funds, Capital Projects Fund and non-major governmental funds were as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major</u>	<u>Totals</u>
Deferred:				
Property taxes	\$ 36,479,892	\$ 4,455,013	\$ -	\$ 40,934,905
Gifts and bequests	154,097	-	3,214,256	3,368,353
Unearned	40,434	-	1,243,382	1,283,816
Totals	<u>\$ 36,674,423</u>	<u>\$ 4,455,013</u>	<u>\$ 4,457,638</u>	<u>\$ 45,587,074</u>

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE F: INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2008, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund:		
Non-Major Governmental Funds	\$ 184,186	\$ 42,850,226
Debt Service Fund	162,615	-
Capital Projects Fund	27,044,468	-
Agency Fund	632,801	-
	<u>28,024,070</u>	<u>42,850,226</u>
Debt Service Fund:		
General Fund	-	162,615
Capital Projects Fund:		
General Fund	-	27,044,468
Non-Major Governmental Fund	562,208	-
Non-Major Governmental Fund:		
General Fund	42,850,226	184,186
Capital Projects	-	562,208
	<u>42,850,226</u>	<u>746,394</u>
Agency Fund	-	632,801
Totals	<u>\$ 71,436,504</u>	<u>\$ 71,436,504</u>

The interfund receivable and payable between General Fund and special revenue fund occur when expenditures take place before the reimbursement is received from the granting agency. The interfund balance between General Fund and Capital Projects Fund, Debt Service Funds, and Agency Fund occur due to payments made from the General Fund operating account on behalf of these funds. Transfers occur monthly, unless significantly larger payments are noted and the transfer occurs more frequently. All interfund balances are expected to be repaid within the next fiscal year.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE G: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 is as follows:

	Balance at July 1, 2007	Additions	Deletions/ Transfers	Balance at June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 150,077,328	\$ 326,859	\$ 2,269,477	\$ 152,673,664
Construction in progress	105,506,231	95,344,129	(173,982,873)	26,867,488
Total capital assets, not being depreciated	<u>255,583,559</u>	<u>95,670,988</u>	<u>(171,713,396)</u>	<u>179,541,152</u>
Capital assets, being depreciated:				
Building and improvements	2,012,875,008		167,121,340	2,179,996,348
Furniture and equipment	173,044,699	20,515,526	1,001,674	194,561,899
Total capital assets, being depreciated	<u>2,185,919,707</u>	<u>20,515,526</u>	<u>168,123,014</u>	<u>2,374,558,247</u>
Less accumulated depreciation for:				
Buildings and improvements	718,465,103	37,108,188		755,573,291
Furniture and equipment	127,776,477	26,184,400	(3,590,381)	150,370,496
Total accumulated depreciation	<u>846,241,580</u>	<u>63,292,588</u>	<u>(3,590,381)</u>	<u>905,943,787</u>
Total capital assets, being being depreciated, net	1,339,678,127	(42,777,062)	171,713,396	1,468,614,460
Capital assets, net	<u>\$ 1,595,261,686</u>	<u>\$ 52,893,926</u>	<u>\$ -</u>	<u>\$ 1,648,155,612</u>

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Depreciation expense was charged to functions of government activities as follows:

		Depreciation Expense
		<hr/>
11	Instruction	\$ 39,753,211
12	Instructional resources and media services	2,112,313
13	Curriculum and staff development	166,250
23	School leadership	1,491,288
31	Guidance, counseling and evaluation services	329,715
33	Health services	173,260
34	Student transportation	444,803
35	Food services	5,144,969
36	Curriculum/extracurricular activities	1,637,494
41	General administration	668,992
51	Plant maintenance and operations	5,219,170
52	Security and monitoring services	503,262
53	Data processing services	5,647,861
		<hr/>
	Total	\$ 63,292,588
		<hr/>

Depreciation is allocated to functions of governmental activities by specific identification whenever possible. Depreciation related to campus facilities is allocated to functions based on the relative square footage of the respective functional areas. Technology equipment is allocated in total to data processing services.

The District has active construction projects. These projects include new school construction and renovation of existing facilities. The remaining balance for these construction commitments as of June 30, 2008 is \$3,846,457.

By applying the criteria set forth in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, the District determined that no adjustment for impaired assets is required in the year ended June 30, 2008. The District has no carrying value on permanently impaired assets and \$750,000 carrying value on temporarily impaired assets.

**NOTE H: LEASES**

The District leases offices, warehouse space and parking under non-cancelable long term operating leases. Lease expense for the year ended June 30, 2008 was approximately \$1,457,000. Minimum future lease commitments on non-cancelable leases are summarized as follows:

For the Year Ending June 30,	Minimum Future Lease Commitments
<hr/>	<hr/>
2009	\$ 328,000
2010	130,000
2011	117,000
2012	3,000

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE I: LONG-TERM OBLIGATIONS**

Long-term debt includes par bonds, capital appreciation serial bonds, contractual obligations, capital leases, long-term loans, maintenance tax notes and provisions for workers' compensation liability. Bond premiums are amortized using the effective interest method.

General Obligation Bonds

These bonds are secured by ad valorem taxes levied against all taxable property and are serviced, with the exception of the contractual obligation bonds, by the Debt Service Funds with an apportionment of the ad valorem tax levy. Interest rates on the bonds range from 1.75% to 5.50% and are due through 2032.

At June 30, 2008, \$76,896,518 in cash equivalents was reserved in the Debt Service Fund to service the outstanding bonds.

Series	Bond Series Name - General Obligation Bonds Maturity or Mandatory Redemption Date	Interest Rates	Original Issue Amount (in thousands)	Total Outstanding Principal Amount (in thousands)
1999	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2000 to August 15, 2014	3.70% - 5.25%	\$ 165,460	\$ 145,830
2002	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2003 to February 15, 2022	4.0% - 5.50%	335,594	226,795
2003	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from February 15, 2004 to February 15, 2027	1.75% - 5.00%	156,665	36,050
2004	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2004 to August 15, 2030	3.0% - 5.00%	300,000	300,000
2004A	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2005 to August 15, 2031	3.0% - 5.00%	400,000	400,000
2005	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2008 to August 15, 2014	5.25%	44,135	44,135
2006	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2007 to August 15, 2032	4.0% - 5.00%	290,205	288,825
Total				<u>\$ 1,441,635</u>

**Dallas Independent School District  
Notes to the Basic Financial Statements  
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**Maintenance Tax Notes**

On October 1, 2001, the District issued \$6,880,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2001. An additional \$1,120,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2002, was issued on September 1, 2002. The amount outstanding for Qualified Zone Academy Maintenance Tax Notes as of June 30, 2008 was as follows:

Series	Maintenance Tax Notes Maturity or Mandatory Redemption Date	Yield Rates	Total Outstanding Principal Amount
2001	Principal due at maturity - deposits made to escrow annually at May 1, 2002 to May 2015	6.82%	\$ 5,210
2002	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2003 to September 15, 2016	6.14%	1,120
Total			<u>\$ 6,330</u>

The following is a summary of the changes in the District's long-term debt for the year ended June 30, 2008 (in thousands):

**Dallas Independent School District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2008**

Description	Long-Term Liabilities Outstanding July 1, 2007	Additions and Interest Accretion	Retired	Long-Term Liabilities Outstanding June 30, 2008	Amount Due Within One Year From June 30, 2008
General obligation bonds:					
Series 1999	\$ 151,915	\$ -	\$ 6,085	\$ 145,830	\$ 19,575
Series 2002	238,375	-	11,580	226,795	11,405
Series 2003	53,385	-	17,335	36,050	615
Series 2004	300,000	-	-	300,000	2,715
Series 2004A	400,000	-	-	400,000	-
Series 2005	44,135	-	-	44,135	5,885
Series 2006	290,205	-	1,380	288,825	1,405
Total general obligation bonds	<u>1,478,015</u>	<u>-</u>	<u>36,380</u>	<u>1,441,635</u>	<u>41,600</u>
Capital appreciation bonds: Series 1995	<u>13,320</u>	<u>105</u>	<u>13,425</u>	<u>-</u>	<u>-</u>
Notes Payable:					
2.71%-Installment obligations	-	2,509	602	1,907	619
Series 2001-QZAB	5,095	115	-	5,210	-
Series 2002-QZAB	1,120	-	-	1,120	-
Total notes payable	<u>6,215</u>	<u>2,624</u>	<u>602</u>	<u>8,237</u>	<u>619</u>
Total bonds & notes payable	1,497,550	2,729	50,407	1,449,872	42,219
Capital leases:					
Honeywell - Phase IIA	1,155	-	1,155	-	-
Honeywell - Phase IIB	1,155	-	1,155	-	-
Total capital leases	<u>2,310</u>	<u>-</u>	<u>2,310</u>	<u>-</u>	<u>-</u>
Other long-term obligations:					
Workers compensations	11,710	-	2,117	9,593	2,699
Deferred losses on refunding	(6,704)	-	(361)	(6,343)	-
Premium on bonds	42,522	-	5,597	36,925	-
Arbitrage payable	2,846	200	-	3,046	-
	<u>50,374</u>	<u>200</u>	<u>7,353</u>	<u>43,221</u>	<u>2,699</u>
Totals	<u>\$ 1,550,234</u>	<u>\$ 2,929</u>	<u>\$ 60,070</u>	<u>\$ 1,493,093</u>	<u>\$ 44,918</u>

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

For governmental activities, claims and judgments are generally liquidated by General Fund resources.

**Debt Service Requirements**

The annual requirements to pay principal and interest on the bond obligations and notes payable outstanding as of June 30, 2008, are as follows (in thousands):

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008 - 2009	\$ 42,218	\$ 70,299	\$ 112,517
2009 - 2010	45,405	68,282	113,687
2010 - 2011	53,510	66,115	119,625
2011 - 2012	45,730	63,610	109,340
2012 - 2013	52,695	61,149	113,844
2013 - 2018	276,620	266,588	543,208
2018 - 2023	276,680	200,180	476,860
2023 - 2028	330,830	123,957	454,787
2028 - 2032	327,835	36,373	364,208
	<u>1,451,523</u>	<u>\$ 956,553</u>	<u>\$ 2,408,076</u>
Accreted Interest	(1,651)		
Totals	<u>\$ 1,449,872</u>		

In 1985, 1995, 1999, 2002, 2003 and 2005, the District legally defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's basic financial statements. The total amount of defeased bonds that remain outstanding at June 30, 2008, is \$64,040,000.

**Debt Issuance**

The District did not issue new debt during fiscal year 2007-2008.

**Arbitrage**

The Federal Tax Reform Act of 1986 requires issuers of tax exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. Arbitrage liability for tax exempt debt subject to the Tax Reform Act issued through June 30, 2008, amounted to \$3,046,229. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE J: GENERAL FUND FEDERAL SOURCE REVENUE**

Federal revenues recorded in the General Fund consist of the following:

Junior ROTC	\$ 1,846,282
Medicare	1,860,998
Indirect cost	1,713,573
Other Federal	61,253
Total	<u>\$ 5,482,106</u>

**NOTE K: PENSION PLAN OBLIGATIONS**

Teacher Retirement System of Texas

Plan Description - All employees of the District employed for one-half or more of the standard workload and who are not exempted from membership under the Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (the "System"), a multiple-employer Public Employee Retirement System ("PERS"). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System's annual financial report and other required disclosure information are available by writing to the Teacher Retirement System of Texas Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

The System operates primarily under the provisions of Texas Constitution, Article XVI Section 67 and Texas Government Code, Title 8, Subtitle C. The System also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively. Service requirements are as follows:

Normal – Age 65 with 5 years of service or when the sum of member's age and years of credit equals or exceeds 80.

Reduced – Age 55 with at least 5 years of credited service or any age below 50 with 30 or more years of credit service.

Funding Policy - By statute, plan members must contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. For members of the retirement system entitled to the minimum salary for certain personnel under Section 16.056, Texas Education Code, the District will pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum. The District's employees' contributions to the System for the years ending June 30, 2006, June 30, 2007, and June 30, 2008, were \$53,893,516, \$58,215,603 and \$63,944,579, respectively equal to the required contributions for each year. Other contributions made from Federal and private grants and from the District for salaries above the statutory minimum for the years ending June 30, 2006, June 30, 2007 and June 30, 2008 were \$11,071,954, \$16,290,287 and \$21,153,142 respectively, equal to the required contributions for each. In addition, the District has recorded, in the General Fund, approximately \$43.5 million in revenue and expenditures for pension contributions paid on behalf of the District by the state.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Teacher/Employee Recruitment and Retention Program Trust

Plan Description - The District contributes to the Teacher/Employee Recruitment and Retention Program Trust ("TERRP or "Plan"). The Trust is a defined contribution retirement plan established by the Education Service Center Region 10. The District's Board has the authority for amending plan provisions including establishing and amending contribution requirements. The Board appoints an employee as the Plan Administrator. The Trust's annual financial report and other required disclosure information are available by writing the TERRP Plan Record Keeper JEM Resource Partners, 4201 Bee Caves Rd C-101, Austin, Texas 78746.

Under the plan provisions, the District contributes 100% of plan member contributions as follows: For Tier I, the District makes a matching contribution to the Plan for the greater of a) or b): a) The District matches fifty percent (50%) of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 1% of the participant's base compensation. The District's contribution per participant should not exceed \$180 annually. b) Participants receive a contribution from the Plan based on the following attendance criteria: 1) for participants with excellent attendance, the District shall match 75% of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 1.5% of the participant's base compensation. The District's contribution per participant should not exceed \$270 for any Plan year. Excellent attendance is defined as 3 days or fewer of absence during the Plan year. 2) For participants with perfect attendance, the District shall match 100% of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 2% of the participant's base compensation. The District contribution per participant should not exceed \$360 for any Plan year. Perfect attendance is defined as zero absences during the plan year. For Tier II, the District makes a direct contribution to the Plan for campus-based professional employees and support staff ("Campus-based Employees") whose campus achieves the following criteria: (a) a minimum average student attendance rate for the school year ending during the Plan year of 97.5%; or (b) if the campus met or exceeded requirement (a) in the preceding Plan year, then the requirement for the contribution should be the current campus average student attendance rate plus 0.5%. District contributions for the year ended June 30, 2008 was \$2,105,275. There were 14,121 plan participants at June 30, 2008.

A participant is 25% vested in his or her account after attaining two credited years of participation, 50% vested after three years, 75% vested after 4 years and 100% vested in his or her account after attaining five credited years of participation in this Plan. Upon meeting the requirements of "qualification for unreduced retirement" in accordance with the System, obtaining normal retirement age, or upon death or permanent disability, a participant shall be 100% vested regardless of years of service.

**NOTE L: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in insurance coverage from the prior year. The District purchases commercial insurance to cover general liabilities. There were significant reductions in insurance claims from the prior year. Reductions were the result of mandatory limited duty, medical case management, claim audits, safety training and other safety incentives, medical and hospital bill auditing and the implementation of the wellness program. There have been no claim settlements in excess of insurance coverage in the last three years.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

Workers' Compensation

Beginning in 1989, the District moved from a self-insured workers' compensation program administered by a third party to a self-insured program administered by the District. The District currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by District management.

At June 30, 2008, the accrued liability for workers' compensation self-insurance of \$9.593 million includes incurred but not reported claims. The amount due and payable at fiscal year end is \$2.699 million, which is recorded in accrued liabilities in the General Fund and the long-term portion of \$6.894 million is recorded as a long-term liability in the Statement of Net Assets.

This liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not necessarily result in an exact amount. This liability is the District's best estimate based on available information.

Changes in the reported liability resulted from the following:

Fiscal Year	Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claims Payments	Balance at End of Year
2006 - 2007	\$ 11,351,327	\$ 6,789,515	\$ (6,431,253)	\$ 11,709,589
2007 - 2008	11,709,589	4,193,191	(6,310,969)	9,591,811

Health Insurance

The Board of Trustees approved the District's participation in the Texas Retirement System ("TRS") Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective January 1, 2004. This is a premium-based plan: payments are made on a monthly basis for all covered employees.

**NOTE M: GASB STATEMENT NO. 45**

The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, which is effective for the District in the fiscal year ending June 30, 2008. This statement establishes standards of accounting and financial reporting for post employment health care and other benefits if provided separately from a pension plan. The District has implemented this standard with respect to the retiree health plan through the Texas Public School Retired Employees Group Insurance Program (TRS-Care).

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**Plan Description:** The Dallas Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us)<<http://www.trs.state.tx.us>>, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or calling 1-800-223-8778.

**Funding Policy:** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2008, 2007 and 2006. Per Texas Insurance code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended June 30, 2008, 2007, and 2006, the State's contributions to TRS-Care were \$9,992,840, \$9,096,188 and \$8,472,924 respectively, and the school district's contributions were \$6,543,036, \$5,979,744, and \$5,865,260 which equaled the required contributions each year.

**NOTE N: NEW ACCOUNTING PRONOUNCEMENTS**

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which will be effective for the District in the fiscal year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which will be effective for the District in the fiscal year ending June 30, 2010. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets clarifying whether and when intangible assets should be considered capital assets for financial reporting purposes.

The GASB has also issued Statement No. 52, *Land and other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement is effective for the District in fiscal year 2009.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which will be effective for the District for periods beginning after June 15, 2009. The Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

The District will evaluate the impact of the standards and take the necessary steps to implement.

**Dallas Independent School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE O: LITIGATION, CONTINGENCIES AND COMMITMENTS**

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2008, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies. The District has estimated and recorded a liability for amounts to be repaid to granting agencies totaling \$2.2 million.

The Department of Education is currently auditing the District's Title I grant funds for 2005-2006. The preliminary findings of the Office of the Inspector General indicate that the District charged \$5.3 million for unallowable and unsupported expenses to the Title I grant. Based on review of the findings and discussions with the Department of Education, the District has recorded approximately \$1.6 million for this contingency at June 30, 2008, based on the District's best estimate. Subsequent to the issuance of the draft report by the Department of Education, the District will have the opportunity to review any findings and request adjustments.

The audit for the year ended June 30, 2008, conducted in accordance with the provisions of the Single Audit Act, identified several material weaknesses and significant deficiencies in the District's system of internal accounting controls, along with several instances of non-compliance with the requirements, rules, and regulations of the underlying federal and state programs.

Based on an internal audit of the District's P-card program for expenditures incurred for grant programs from 2002-2006. The District has estimated the range of expected losses to be \$4.2 million to \$7.4 million. The District believes that the loss of \$4.2 million is the expected future outcome and has recorded a liability in this amount at June 30, 2008.

**NOTE P: SUBSEQUENT EVENTS**

Because the 2007-08 general fund excess of expenditures over revenues was not determined until after the 2008-09 budget was adopted, the underestimation of expenditures was carried forward to the 2008-09 budget. As a result, if no actions were taken, the District estimated that the 2008-09 operating results would be, a deficit of at least \$74 million. On September 19, 2008, the Board of Trustees declared a financial exigency and on October 2, 2008, approved a reduction in force (the "RIF"). As a result of the RIF, early retirements and other budget actions, the District currently estimates a deficit in 2008-09 of approximately \$25 to \$30 million. The District continues to review other actions to further reduce the 2008-09 expected operating deficit in the general fund.

On August 11, 2008, the District issued \$125 million in Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. The TANS are due on February 15, 2009.

On September 30, 2008, the District issued \$20 million in Maintenance Tax Notes that were issued for the purpose of paying contractual obligations incurred for vehicles and preparation and installation of a student software and hardware system. The Maintenance Tax Notes are due in annual installments through 2015.

On December 11, 2008, the District closed on the sale of the Unlimited Tax School Building Bonds, Series 2008 \$393,325,000 (the "Bonds") to construct, equip and renovate school buildings in the District. The Bonds have various maturity dates beginning in 2010 through 2034 with an interest range between 5% and 6.25%.

**Dallas Independent School District**  
**Schedule of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget (GAAP Basis) and Actual**  
**(Unaudited)**

Exhibit G-1

**General Fund**  
**For the Year Ended June 30, 2008**

Data Control Codes	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 775,000,000	\$ 775,500,000	\$ 783,499,016	\$ 7,999,016
State sources	381,704,668	418,207,341	424,377,425	6,170,084
Federal sources	6,575,000	6,575,000	5,482,106	(1,092,894)
Total revenues	<u>1,163,279,668</u>	<u>1,200,282,341</u>	<u>1,213,358,547</u>	<u>13,076,206</u>
Expenditures:				
Current:				
11 Instruction	706,873,233	756,844,313	780,847,577	(24,003,264)
12 Instructional resources and media services	21,525,591	23,072,555	22,704,483	368,072
13 Curriculum and staff development	16,779,840	13,037,562	14,989,248	(1,951,686)
21 Instructional leadership	16,956,373	18,236,673	18,644,277	(407,604)
23 School leadership	76,883,738	80,990,514	81,830,064	(839,550)
31 Guidance, counseling, and evaluation services	45,999,785	45,274,316	46,491,738	(1,217,422)
32 Social work services	1,887,224	1,475,479	1,481,390	(5,911)
33 Health services	13,513,158	13,856,882	16,189,560	(2,332,678)
34 Student transportation	18,163,857	16,854,371	17,530,741	(676,370)
36 Cocurricular/extracurricular activities	12,742,769	9,746,903	10,655,150	(908,247)
41 General administration	36,680,894	38,128,947	43,516,700	(5,387,753)
51 Plant maintenance and operations	138,770,662	145,281,733	161,398,750	(16,117,017)
52 Security & monitoring services	18,802,816	16,880,270	18,589,575	(1,709,305)
53 Data processing services	19,637,734	23,292,911	21,762,482	1,530,429
61 Community services	8,059,008	7,958,050	8,074,500	(116,450)
71 Debt Service	2,416,756	3,274,567	3,098,074	176,493
81 Facilities acquisition and construction	3,774,023	(879,483)	475,553	(1,355,036)
95 Payments juvenile justice AE	765,000	765,000	634,959	130,041
97 Payments to tax increment fund	3,047,207	4,351,268	4,355,716	(4,448)
Total expenditures	<u>1,163,279,668</u>	<u>1,218,442,831</u>	<u>1,273,270,537</u>	<u>(54,827,706)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (18,160,490)</u>	(59,911,990)	<u>\$ (41,751,500)</u>
Fund balance - beginning			120,124,634	
Fund balance-ending			<u>\$ 60,212,644</u>	

**Dallas Independent School District**  
**Notes to the Required Supplementary Information (Unaudited)**  
**For the Year Ended June 30, 2008**

The official budget was prepared for adoption for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. Project accounting is employed to maintain the integrity of the various sources of funds. There is no difference between GAAP and the budgetary basis of accounting. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

1. Before June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Before July 1, the Board legally enacts the budget through passage of a resolution.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made following the approval by the Board of Trustees, and are reflected in the official minutes.

The budget manager at the expenditure function/object level controls each budget. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year.

The Texas Education Agency ("TEA") requires the budgets for the Governmental Fund Types to be filed with the TEA. The expenditure should not exceed the budget in any functional category under TEA requirements.

At the time the final amended budget was approved, the District was not aware of the financial effect of the significant increase in staffing level, nor the effect of certain accrual issues principally in the payroll and accounts payable areas which impacted several functions.

**Dallas Independent School District**  
**Notes to the Required Supplementary Information (Unaudited)**  
**For the Year Ended June 30, 2008**

The following reflects the final budget negative expenditure variances for the fiscal year ended June 30, 2008:

Data Control Codes	Function	Final Budget	Actual	Variance with Final Budget (Negative)
11	Instruction	\$ 757,408,886	\$ 780,247,577	\$ (22,838,691)
13	Curriculum and staff development	13,037,562	14,989,248	(1,951,686)
21	Instructional leadership	18,091,773	18,644,277	(552,504)
23	School leadership	80,990,515	81,830,064	(839,549)
31	Guidance, counseling and evaluation services	45,110,266	46,491,738	(1,381,472)
33	Health services	13,891,882	14,589,560	(697,678)
34	Student transportation	16,854,371	17,530,741	(676,370)
36	Cocurricular/extracurricular activities	10,586,070	10,655,150	(69,080)
41	General administration	38,313,271	43,516,700	(5,203,429)
51	Plant maintenance and operations	150,435,418	161,398,750	(10,963,332)
52	Security & monitoring services	18,136,797	18,589,575	(452,778)
61	Community services	7,969,942	8,074,500	(104,558)
81	Facilities acquisition and construction	376,988	475,553	(98,565)
97	Payments to tax increment fund	4,351,268	4,355,716	(4,448)

**Dallas Independent School District  
Schedule of Delinquent Taxes Receivable (Unaudited)  
For the Year Ended June 30, 2008**

Exhibit J-1

Fiscal year (1)	Tax Rates		Net Assessed/ Appraised Value for School Tax Purposes	Beginning Balance	Current Year's Total Levy	Maintenance Total Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance
	Maintenance	Debt Service							
1999 and prior years	Various	Various	\$ 44,624,425,308	\$ 14,100,484	\$ -	\$ 472,349	\$ 39,398	\$ (364,899)	\$ 13,223,838
2000	1.39800	0.00630	49,107,307,100	2,639,665		58,333	5,369	(66,288)	2,509,675
2001	1.47800	0.06950	53,136,828,664	4,175,147		249,941	15,573	(174,254)	3,735,379
2002	1.47800	0.06950	57,284,326,734	4,795,695		202,779	13,696	(288,173)	4,291,047
2003	1.47800	0.10950	58,484,300,287	6,947,207		219,867	23,642	(427,069)	6,276,629
2004	1.50000	0.13950	58,380,724,174	8,169,737		631,606	65,581	(135,606)	7,336,944
2005	1.50000	0.16694	59,372,699,642	8,916,612		867,689	115,751	(221,952)	7,711,220
2006	1.50000	0.18836	62,682,170,090	13,374,714		1,977,860	285,972	(1,232,874)	9,878,008
2007	1.33005	0.17259	69,473,558,853	30,132,777	892,410,875	11,111,791	1,498,709	(4,922,402)	12,599,875
2008	1.04005	0.15959	77,232,250,745			743,038,382	114,421,744	(9,401,125)	25,549,624
1000 Totals				<u>\$ 93,252,038</u>	<u>\$ 892,410,875</u>	<u>\$ 758,830,597</u>	<u>\$ 116,485,435</u>	<u>\$ (17,234,642)</u>	<u>\$ 93,112,239</u>
Wilmer Hutchins (2)									390,561
									<u>\$ 93,502,800</u>

9000 - Portion of Row 1000 for taxes paid into Tax Increment Zone Under Chapter 311, Tax Code

\$ 4,351,268

(1) The District changed the fiscal year end for the fiscal year ending June 30, 2003. Fiscal years prior to 2003 reflect August 31 year ends. Fiscal years subsequent to 2002 reflect June 30 year ends. The amount for 2003 reflects 10 months activity. All other years reflect 12 months of activity.  
(2) Wilmer Hutchins ISD was annexed by the District effective July 1, 2007.

**Dallas Independent School District**  
**Schedule of Expenditures for Computations of Indirect Costs**  
**General and Special Revenue Funds (Unaudited)**  
**For the Year Ended June 30, 2008**

Exhibit J-2

Function 41 and Related Function 53- General and Administration

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Superintendent's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other)	7 Total
611X-6146	Payroll costs	\$ 504,087	\$ -	\$ 496,077	\$ 19,331,734	\$ 981,205	\$ 3,932,210	\$ 25,245,313
6149	Fringe benefits (used leave for separating employees in function 41 and Related 53)							-
6149	Fringe benefits (used leave for separating employees in all functions except function 41 and related 53)							-
6211	Legal services	5,015,699						5,015,699
6212	Audit services				2,381,690			2,381,690
6213	Tax appraisal and collection		4,185,059					4,185,059
621X	Other professional services	596,017		69,000	2,163,652	300	309,695	3,138,664
6220	Tuition and transfer payments						2,201	2,201
6230	Education Service Center Services				142			142
6240	Construction, maintenance and repair					37,950		37,950
6260	Rentals	9,122		19,803	195,742		55,079	279,746
6290	Miscellaneous contributions	18,197		8,748	171,632		43,902	242,479
6310	Supplies and materials				8,236			8,236
6320	Textbooks and reading materials	61		669	3,097		447	4,274
63XX	Other supplies materials	27,606		9,227	720,537	(27,550)	113,459	843,279
6410	Travel, subsistence and stipends	20,414		20,503	152,584		117,435	310,936
6420	Insurance							-
6430	Election costs	972,341						972,341
6490	Miscellaneous operating	127,390		40,897	765,181	(11,303)	371,775	1,293,940
6600	Capital outlay						1,463,542	1,463,542
6000	Total	\$ 7,290,934	\$ 4,185,059	\$ 664,924	\$ 25,894,227	\$ 980,602	\$ 6,409,745	\$ 45,425,491

Total expenditures for General and Special Revenue Funds

\$ 1,560,292,156

Less: Deductions of unallowable costs:

Total capital outlay (6600)(only funds 100-199/200-499/810-879)  
Total debt and lease (6500)(only funds 100-199/200-499/810-879)  
Plant maintenance (function 51, 6100-6400)  
Food (function 35, 6341)  
Stipends (6132 and 6412)

10	44,931,970
11	3,098,074
12	159,736,454
13	21,792,062
14	
	<u>229,558,560</u>
	<u>1,330,733,596</u>

Net allowed direct cost

Total cost of buildings before depreciation (1520)  
Historical cost of buildings over 50 years old  
Amount of Federal money in building cost (net of above)  
Total cost of furniture & equipment before depreciation (1530&1540)  
Historical cost of furniture & equipment over 16 years old  
Amount of Federal money in furniture & equipment (net of above)

15	1,464,417,094
16	121,907,590
17	10,000
18	154,497,651
19	39,181,261
20	<u>\$ 39,181,261</u>

(8) Note A - -0- in function 53 expenditures are included in this report on administrative costs.

**Dallas Independent School District**  
**Fund Balance and Cash Flow Calculation Worksheet**  
**General Fund (Unaudited)**  
**June 30, 2008**

Exhibit J-3

Data Control Code	Explanation	Amount
1	Total General Fund Balance 6/30/08 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 60,212,644
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	16,588,957
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	
4	Estimated amount needed to cover all cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues) (unaudited)	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08-5/31/09) (unaudited)	130,783,672
6	Estimate of delayed payments from state sources (58xx) including August payment delays	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate and District Planning Estimate or District's calculated earned state aid amount.	
8	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Funds (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
9	Optimum Fund Balance and Cash Flow (2+3+4+5) (unaudited)	147,372,629
10	Excess/(Deficit) Undesignated Unreserved General Fund Balance (1-6) (unaudited)	\$ (87,159,985)

**Dallas Independent School District  
Budgetary Comparison Schedule - Nonmajor Fund  
Food Service Fund (Unaudited)  
For the Year Ended June 30, 2008**

Exhibit J-4

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2007			<u>\$ 15,529,832</u>	
	Revenues				
5700	Local and intermediate sources	\$ 14,115,349	\$ 8,225,624	7,737,772	\$ (487,852)
5800	State program revenues	896,318	634,408	566,604	(67,804)
5900	Federal program revenues	<u>58,335,028</u>	<u>64,486,663</u>	<u>63,851,799</u>	<u>(634,864)</u>
5000	Amounts available for appropriation	<u>73,346,695</u>	<u>73,346,695</u>	<u>72,156,175</u>	<u>(1,190,520)</u>
	Expenditures				
0035	Food service	70,760,055	70,760,055	69,540,827	1,219,228
0051	Plant maintenance and operations	<u>2,586,640</u>	<u>2,586,640</u>	<u>2,459,758</u>	<u>126,882</u>
6000	Total charges to appropriations	<u>\$ 73,346,695</u>	<u>\$ 73,346,695</u>	<u>72,000,585</u>	<u>\$ 1,346,110</u>
3000	Fund balance, June 30, 2008			<u><u>\$ 15,685,422</u></u>	

**Dallas Independent School District  
Budgetary Comparison Schedule -  
Debt Service Fund (Unaudited)  
For the Year Ended June 30, 2008**

Exhibit J-5

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2007			<u>\$ 78,991,204</u>	
	Revenues				
5700	Local and intermediate sources	\$ 122,136,330	\$ 122,136,330	119,950,744	\$ (2,185,586)
5000	Amounts available for appropriation	<u>122,136,330</u>	<u>122,136,330</u>	<u>119,950,744</u>	<u>(2,185,586)</u>
	Expenditures				
0071	Principal and interest on long-term debt	122,136,330	122,136,330	122,045,430	90,900
6030	Total charges to appropriations	<u>\$ 122,136,330</u>	<u>\$ 122,136,330</u>	<u>122,045,430</u>	<u>\$ 90,900</u>
3000	Fund balance, June 30, 2008			<u><u>\$ 76,896,518</u></u>	



## **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**

We have audited the financial statements of the Dallas Independent School District (the "District") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 2008-01 through 2008-21 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies

described above, we consider 2008-01 through 2008-03, 2008-07 through 2008-10 and 2008-12 to be material weaknesses.

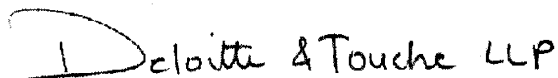
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-01 through 2008-03, 2008-12, 2008-19, 2008-20, and 2008-21.

We noted certain matters that we reported to management of Dallas Independent School District in a separate letter dated December 19, 2008.

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District, and the Texas Education Agency, and is not intended to be and should not be used by anyone other than these specified parties.

 Deloitte & Touche LLP

December 19, 2008

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

### **Compliance**

We have audited the compliance of the Dallas Independent School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Dallas Independent School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

As described in items 2008-22 through 2008-24 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs that are applicable to its Title I, Part A, Title II, Part A, 21<sup>st</sup> Century Learning Centers, Special Education Cluster, Adult Education Basic Grant, Special Education Grants for Infants and Families, and Teacher Incentive Fund programs. Additionally, as described in item 2008-36, the District did not comply with requirements regarding matching that are applicable to its Adult Education Basic Grant program, and as described in items 2008-29 and 2008-30, the District did not comply with special tests and provisions that are applicable to its Special Education Grants for Infants and Families. The District also did not comply with special tests and provisions applicable to Title I, Part A, as discussed in item 2008-37. Finally, as described in item 2008-34, the District did not comply with requirements regarding cash management that are applicable to its Title I, Part A and Special Education Cluster programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the District did not comply in all material respects, with the requirements referred to above that are applicable to Special Education Grants for Infants and Families. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Dallas Independent School District complied, in all material

respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-22 through 2008-28, 2008-31 through 2008-33, 2008-35, and 2008-38 through 2008-46.

### **Internal Control Over Compliance**

The management of Dallas Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

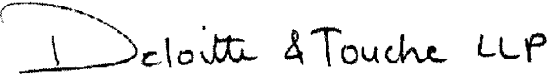
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-22 through 2008-45 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2008-22, 2008-23, 2008-24, 2008-29, 2008-30, 2008-34, 2008-36, 2008-37, and 2008-41 to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District, the Texas Education Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 19, 2008

**DALLAS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

<b>Pass-Through Grantor's Number</b>	<b>Federal/State Grantor-Pass Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Audit Period Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Direct</b>			
Q215E030078-05	Elem. And Secondary School Counseling	84.215E	\$ (22,814)
S060A060194	Indian Education	84.060A	109,816
T293B070133	Foreign Languages Assistance Program	84.293B	221,837
U350A060002-07	Bridges To Teaching	84.350A	120,438
S374A070003	Teacher Incentive	84.374A	753,821
V215L042007	Smaller Learning Communities	84.215L	301,329
U350C070001	Transition to Teaching Program-Ohio State	84.350C	3,645
U351D060153	Dallas Arts Initiative	84.351D	11,243
	<b>Total Direct</b>		<b>1,499,315</b>
<b>Passed Through Texas Education Agency</b>			
086600010579056600	IDEA-B Formula	84.027	30,480,105
086600020579056673	IDEA-B Discretionary (Deaf)	84.027	266,650
086600010579056601	IDEA-B Formula (Deaf)	84.027	192,215
086600060579056680	Idea B High Cost Risk Pool	84.027	85,356
086610010579056610	IDEA-B Preschool	84.173	217,455
086610010579056611	IDEA-B Preschool (Deaf)	84.173	28,115
77022057905	McKinney-Vento Homeless Education	84.196	27,523
77022057905	McKinney-Vento Homeless Education	84.196	143,167
084100017110191	Adult Education & Family Literacy Section 231	84.002A	101,279
084100017110191	Adult Education & Family Literacy Section 231	84.002A	2,692,209
084100087110226	Adult Ed Engl Lit & Civics Education	84.002A	50,601
084100037110031	Adult Education - State Leadership, Project Great	84.002A	134,408
074100037110021	Adult Education - State Leadership, Project Great	84.002A	96,928
08610101057905	Title I, Part A-Improving Basic Programs	84.010A	76,807,715
08610101057905	Title I, Part D, Subpart 2-Delinquent Program	84.010A	26,365
08610104057905	Title I School Improvement Program	84.010A	6,280,501
08420006057905	Carl D. Perkins, Title I, Part C	84.048A	1,657,792
Q184D050011-06	Student Voluntary Drug Testing Program	84.184D	99,685
08691001057905	Title IV, Part A-Safe & Drug Free School & Communities	84.186A	990,177
083911010579053911	IDEA-C Early Intervention	84.181	1,395
076120017110303	Even Start Literacy Program - Cochran	84.213C	26,174
06610104057920042	School Improvement Wilmer Hutchins	84.010A	(1,448)
076950097110011	TX 21st Century Learning Center, Cycle 1 - Success Express	84.287C	424,138
076950097110010	TX 21st Century Learning Center, Cycle 1 - Passing Zone	84.287C	466,226
076950097110009	TX 21st Century Learning Center, Cycle 1 - Bridge to Success	84.287C	389,405
076950097110007	TX 21st Century Learning Center, Cycle 1 - Neighborhood Now	84.287C	413,807
076950097110008	TX 21st Century Learning Center, Cycle 1 - The Learning Zone	84.287C	380,693
076950107110009	TX 21st Century Learning Center, Cycle 2 - Achievement Connection	84.287C	336,466
076950107110012	TX 21st Century Learning Center, Cycle 2 - Project Success	84.287C	431,228
076950107110011	TX 21st Century Learning Center, Cycle 2 - After School/Lab Learning	84.287C	467,906
076950107110010	TX 21st Century Learning Center, Cycle 2 - Achievement Avenue	84.287C	515,428
086950017110009	TX 21st Century Learning Center, Cycle 3 - After-School Ambassador	84.287C	488,524
086950017110008	TX 21st Century Learning Center, Cycle 3 - The Learning Place	84.287C	577,967
076950117110013	TX 21st Century Learning Center, Cycle 3 - The Learning Place	84.287C	362,499
08685001057905	Title V, Part A Innovative Programs	84.298A	81,512
08610103057905	Title II, Part D, Enhancing Education Through Technology	84.318X	618,058
066160037110035-65	Title I, Part F, Comprehensive School Reform	84.332	(1,434)
076455057110016	Texas Reading First Initiative for Grades K-3	84.357A	3,992,909
066455057110016	Texas Reading First Initiative for Grades K-3	84.357A	1,741,138
08671001057905	Title III, Part A- LEP	84.365A	5,281,927
08694501057905	Title II, Part A-Teacher and Principal Training & Recruiting	84.367A	10,800,211
076945157110022-29	Governor's Educator Excellence Award Grant Programs	84.367A	771,256
	Summer School LEP	84.369A	61,253
	<b>Total Passed Through Texas Education Agency</b>		<b>149,005,484</b>

**DALLAS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

<b>Pass-Through Grantor's Number</b>	<b>Federal/State Grantor-Pass Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Audit Period Expenditures</b>
53802C6018-1	Passed Through State Department Of Health		
53802C7018	Special Education Grants for Infants and Families with Disabilities	84.181	1,066,260
	Special Education Grants for Infants and Families with Disabilities	84.181	7,304
U87/CCU622615-05	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	143,384
	<b>Total Passed Through State Department Of Health</b>		<b>1,216,948</b>
	<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<b>151,721,747</b>
	<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
2007-021513	Passed Through State Department Of Health		
	Abstinence Education	93.235	33,886
	<b>Total Passed Through State Department Of Health</b>		<b>33,886</b>
0863625017110177	Passed Through Texas Education Agency		
	Federal-TANF	93.558	272,104
	<b>Total Passed Through Texas Education Agency</b>		<b>272,104</b>
	<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		<b>305,990</b>
	<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
N/A	Passed Through Texas Education Agency		
N/A	National School Breakfast	10.553	11,939,337
	National School Lunch	10.555	47,200,635
	<b>Total Passed Through Texas Education Agency</b>		<b>59,139,972</b>
N/A	Direct		
N/A	Schools/Child Nutrition Commodity Program (Noncash)	10.550	3,345,805
	Summer Feeding Program	10.559	1,366,022
	<b>Total Direct</b>		<b>4,711,827</b>
	<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<b>63,851,799</b>
	<b>OTHER FUNDING AGENCIES</b>		
N/A	Texas Women's University	45.313	44,688
0866002271210	IDEA-B Visually Impaired	84.027	11,454
N/A	Texas Effectiveness Study	84.027	3,229
N/A	Medicaid and School Health Related Services	93.778	1,860,998
N/A	JROTC	12.000	1,846,282
	<b>TOTAL OTHER FUNDING AGENCIES</b>		<b>3,766,651</b>
	<b>TOTAL FEDERAL ASSISTANCE</b>		<b>\$ 219,646,187</b>

**Note**

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A to the District's Basic Financial Statements. Schools/Child Nutrition Commodity Program is a non cash transaction for \$3,345,805

See notes to the Schedule of Expenditures of Federal Awards

**DALLAS INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

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1. The District utilizes the fund types specified in the Texas Education Agency Resource Guide.

*Special Revenue Funds* are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state awards generally are accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified grant periods.

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 were accounted for in the special revenue funds, which are 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, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenues until earned. The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 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 Circular A-133 Compliance Supplement*.
4. The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section I—Summary of Auditors' Results

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#### Financial Statements

1. Type of auditor's report issued: unqualified

Internal control over financial reporting:

2. Material weaknesses identified?   X   yes        no
3. Significant deficiencies identified that are not considered to be material weaknesses?   X   yes        none reported
4. Noncompliance material to financial statements noted?   X   yes        no

#### Federal Awards

Internal control over major programs:

5. Material weaknesses identified?   X   yes        no
6. Significant deficiencies identified that are not considered to be material weaknesses?   X   yes        none reported
7. Type of auditor's report issued on compliance for major programs:
- Unqualified for Title III, Part A and Texas Reading First
  - Qualified for Title I, Part A, Title II, Part A, 21<sup>st</sup> Century Learning Centers, Special Education Cluster, Adult Education Basic Grant and Teacher Incentive Fund
  - Adverse for Special Education Grants for Infants and Families
8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?   X   yes        no
9. Identification of major programs:
- 84.010 – Title I, Part A
  - 84.367 – Title II, Part A
  - 84.365 – Title III, Part A
  - 84.287 – 21<sup>st</sup> Century Learning Centers
  - 84.357 – Texas Reading First Initiative
  - 84.027 & 84.173 – Special Education Cluster
  - 84.002 – Adult Education Basic Grant
  - 84.181 – Special Education Grants for Infants and Families
  - 84.374 – Teacher Incentive Fund
10. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
11. Auditee qualified as low-risk auditee?        yes   X   no

## **Section II—Financial Statement Findings**

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### **2008-01 Human Development Department Controls – Noncompliance with Laws and Regulations and Material Weakness**

Multiple missing or weak controls were identified in the District's Human Development (HD) department, which encompasses hiring, benefits, employee records, and compensation. The District's HD Department has not properly implemented controls over aligning employee compensation with Board-approved pay scales, maintenance of employee records, filling only approved and budgeted positions, and aligning hired personnel with budgeted positions. Specifically:

- Employment contracts do not include key terms of employment, including position title, pay grade or step, or amount to be paid to the employee. Although the District's electronic personnel processing authorization forms include this information, current weaknesses in system access controls rendered such electronic data to be inadequately secured.
- There are weaknesses in the employee records filing system which allows for files to be removed from the central filing area and misplaced. The Department was not initially able to locate a significant number of files selected for testing (124 out of 467), but did locate the files in other departments or locations. This process required significant time and effort by HD employees.
- Although HD maintains a checklist of information required to be included in each employee file, the majority of files selected for testing did not contain such information. Key missing items included documentation of years of service, teaching certificates, and pay grade and step.
- The compensation division of the HD department was unable to provide documentation of approval of employees paid outside of the pay scale approved by the Board of Trustees.
- Although the system issues a warning when HD administrators attempt to fill a position for which no budgetary funds exist, administrators are able to override the warning without approval and proceed with the hiring process.

Such deficiencies in controls contributed to the budgetary overruns of the District in fiscal year 2008. As more than 90% of the District's expenditures are personnel-related costs, it is critical that the District have controls in place and operating effectively that are supportive of a fiscally responsible system.

In addition, lack of complete documentation in personnel files have resulted in substantial delays in completion of the compliance audit and contributed to the total questioned costs identified in the Single Audit. Refer to further information in item 2008-12 – Material Weakness in Grant Compliance, Accounting, and Reporting.

**Recommendation** –Review state and federal guidelines for employment files, contracts, and evidence of pay. Design, develop and implement policies and procedures to comply with those guidelines. Work with the Budget and IT departments to ensure that budgetary and system controls are properly designed and operating effectively.

## **2008-02 Controls over Disbursements and Contract Monitoring – Noncompliance with Laws and Regulations and Material Weakness**

**Observation** – Multiple weaknesses were noted in the District’s procurement processes and procedures. A lack of centralization of certain aspects of the District’s procurement function contributed to instances in which the District failed to comply with state or federal procurement law and/or District policy related to contracts and agreements. Such instances were noted as follows:

- The District was unable to provide supporting evidence that the prices quoted by vendors during the bidding process were the same as the prices actually charged to the District. Vendors bid prices for specific items and construction tasks, and depending on the type of contract, the best and lowest bidder was selected. However, when the vendor supplied the initial proposal and subsequently the invoices, a breakdown of prices for specific items and construction tasks billed to the District was not provided or not available for review.
- In instances where the District uses approved purchasing cooperatives, procurement policies and procedures are not consistently applied. In some instances, the District did not maintain evidence that vendors were checked for suspension and debarment as required by state and federal law. Additionally, in some bid files, evidence of approved contracts was not consistently maintained. Failure to consistently apply procurement regulations to all purchasing cooperatives, vendor agreements, and contracts can result in poor record-keeping and ultimately misapplication or noncompliance with state laws and regulations.
- Multiple instances were noted in which the District did not obtain Board approval for aggregate contracts over \$50,000 as required by local policy. Only individual contracts exceeding \$50,000 were presented to the Board for approval.
- End users are responsible for monitoring that the amount billed and paid for goods and services agree to the amount quoted by the vendor. However this is not consistently done and instances were noted in which the amount paid was more than the amount agreed to in the contract.
- In certain instances where the District used approved purchasing cooperatives, evidence of price agreements and approved contracts were not consistently maintained.
- In several instances, when invoices were received by the Accounts Payable department for payment in an amount that exceeded the approved purchase order, the amount by the District was equal to the purchase order. Short payment of invoices did not appear on exception reports and District personnel did not document any follow-up with vendors regarding discrepancies. Other instances were noted in which invoices were partially paid at one time and then paid again in full at a later date.

**Recommendation** – Implement policies and procedures that require the District-wide enforcement of procurement laws and strengthen controls to centralize processes within the procurement office and more easily monitor compliance with state and federal laws and District policies.

- Develop and implement procedures to ensure that prices vendors submit in their bids are in agreement with the prices actually charged to the District. Policies and procedures should be in place to ensure that prices that vendors submit in their bids for individual projects are the prices that DISD is charged in construction projects.
- Ensure that all bidding packages received from general contractors are maintained and filed in a way that they may be located and tracked back to the related project to demonstrate compliance with state and federal procurement laws.

- Implement procedures to consistently apply state and federal procurement requirements, including review of vendors for possible suspension and debarment. Consistently document the competitive bidding process and the use of all cooperative agreements.
- Enforce District policy that requires Board approval for contracts in excess of \$50,000 either individually or in the aggregate.
- Develop monitoring procedures to verify that the amount billed and paid for goods and services agree to the amount quoted by the vendor and compare to the contract price. Consider whether this monitoring function should be centralized for efficiency and to minimize risk of overpayment.
- Implement a process that requires reconciliation between the purchase order and invoice total prior to payment.

## **2008-03 Budgetary Controls – Noncompliance with Laws and Regulations and Material Weakness**

**Observation** – Budgeting is defined by the Texas Education Agency *Financial Accountability System Resource Guide* as “the process of allocating resources to the prioritized needs of a school district. In school districts, the adoption of a budget implies that a set of decisions have been made by school board members and school district administrators which culminate in matching a school district’s resources with its needs. As such, the budget is a product of the planning process. The budget also provides an important tool for the control and evaluation of a school district’s sources and uses of resources. With the assistance of the accounting system, administrators are able to execute and control the activities that have been authorized by the budget and evaluate performance based upon comparisons between budgeted and actual operations.”

The budget document should be a tool used by administrators to demonstrate accountability for fiduciary responsibility to citizens. However, the District has not properly implemented controls over the budget creation, amendment, functional realignment, and budgetary comparison processes to support reliable and accurate budgetary reporting.

Several methods of budget preparation exist: zero-basis, line item based on prior year, site-based, etc. However, each method should consider the actual performance of the District in the previous year, known or expected changes in operations, and other economic factors, among other things. The District’s budgetary process has historically failed to build certain key elements that have ultimately led to its unreliability.

- Controls are not in place at the District to verify that the budget amendments and functional re-alignments are accurately entered into the budget system and agree to the Board-approved budget amendment or functional realignment.
- Budget and actual comparisons are not performed on a timely basis. Failure to monitor the budget led to noncompliance with TEA requirements and overspending.
- Management reports using actual and accurate financial figures, including period-end accruals have not been available in a timely manner.
- Actual expenditures of the District’s General Fund exceeded the final amended budget approved by the Board of Trustees by \$54,827,706

- Unbudgeted positions can be added by HD administrators using a system override without Board approval. (For further information, see Human Development Controls material weakness.)
- Employee costs are budgeted at average costs rather than actual costs, which leads to an original budget that is unsupported by actual projected expenditures.
- Certain weaknesses in access controls in the District's budget system, Paradox, could also compromise the integrity of the budget document. (refer to status of prior year control deficiency on Paradox Access Controls and Passwords)

**Recommendation** – Develop policies and procedures to ensure the reliability of budgeted figures, including the development of the appropriate basis for the original budget, the performance of periodic reviews of all budget to actual variance, and the monitoring of position control. Specific considerations should include:

- Implementation of procedures to ensure that information entered into the system agrees to the board approved budget, including amendments and functional re-alignments. As the budget is tracked through the Paradox budget system, inaccurate budgets in the system have allowed overspending.
- Budget to actual comparisons performed throughout the year to determine that expenditures are not exceeding budget and to ensure that requirements set forth by the TEA are met. Perform monthly reviews of budget to actual variances. Ensure that unusual relationships are researched and explained. Review the budget on a regular basis to determine that expenditures are made within budget limits.
- Timely preparation and review of GAAP- basis reports that exhibit the true financial status of the District.
- Implementation of procedures that prohibit encumbering or expending the District's funds prior to ensuring that funds are available. Prepare and present all budget amendments for Board approval prior to completion of the fiscal year and prior to encumbering the funds.
- Preparation of the original budget using actual salary information or projected salaries using prior year actual information plus projected increases. As the District's budget is not adopted until contracts are signed, this information is generally available to the Budget Department. Ensure that all positions are uniquely budgeted so that overfilling positions through manual override can be appropriately disabled.
- Implementation of procedures that prohibit encumbering or expending the District's funds prior to ensuring that funds are available. Prepare and present all budget amendments for Board approval prior to completion of the fiscal year and prior to encumbering the funds.
- Preparation of the original budget using actual salary information or projected salaries using prior year actual information plus projected increases. As the District's budget is not adopted until contracts are signed, this information is generally available to the Budget Department. Ensure that all positions are uniquely budgeted so that overfilling positions through manual override can be appropriately disabled.

## **2008-04 Revenue Recognition – Significant Deficiency**

**Observation** – The District has not properly developed and implemented policies and procedures to monitor the recognition of revenue for property taxes and state aid. Specifically:

- The District relies on Dallas County Appraisal District (DCAD) and Dallas County Tax Office (DCTO) to assess, levy, collect, record, and report property taxes. In previous years, the DCTO provided the District with a service auditors' report (SAS 70) on controls in place and operating at DCTO. Such a report was not prepared for fiscal year 2008 and the District did not perform any independent review or monitoring procedures to evaluate the accuracy of information received from DCTO during fiscal year 2008. As income from property taxes is a significant source of revenue for the District, control weaknesses around the assessing, levying, collecting, recording, and reporting property tax revenue processes could have a material impact on the District.
- Subsequent to year-end, the DCTO changed its accounting system, which resulted in substantial delays in the remittance of tax collections to the District and changes in the processing of refunds. Such changes affected the District's cash flows for several months but were not noted by District accountants until a review was performed by upper management.
- The District recorded the portion of the taxes receivable related to the former Wilmer-Hutchins ISD net of the allowance for uncollectible taxes. As such, that portion of the allowance was not appropriately analyzed for collectability in the financial closing process.
- The District's treasury department receives documentation from DCAD on adjustments made to property values; however, these adjustments were not communicated to the finance department or budget director to make amendments to the budget for expected cash flows from property taxes and to adjust the allowance for property taxes.
- Errors were noted in the District's computation of state aid related to consideration of the effects of changes in actual tax collections and refunds on the calculation.

**Recommendation** – Develop and implement control procedures to evaluate the accuracy of the assessment, levy, collection, recording, and reporting of property taxes by DCAD and DCTO. Request that DCTO obtain a SAS 70 review not less than annually to gain additional assurance that controls are in place at the service provider are operating effectively and that weaknesses in controls, if any, are addressed in a timely and appropriate manner. Monitor the collection of taxes by DCTO and timely remittance to the District. Consider using cash flow models or projections as indicators of unexpected changes in significant revenues.

Record the gross delinquent taxes receivable balance and the allowance related to the Wilmer-Hutchins ISD taxes receivable separately. Allowances should be analyzed on an annual basis for changes in circumstances and the ability to collect the outstanding receivable balance. Do not shred adjustments provided by DCAD for judgments and other changes in property taxes without communicating the information to appropriate personnel. Ensure that the accounting and budget departments are provided with copies of all relevant information provided by DCAD to make the proper journal entries and budget amendments as appropriate.

Continue to monitor state aid and the components that affect it throughout the year to properly record and recognize revenues.

## **2008-05 Vendor Support for Information Technology Applications – Significant Deficiency**

**Observation** – The vendors for the underlying FoxPro database for the Paradox Budgeting System and the GFAMS Fixed Assets Systems no longer support maintenance of the software.

If vendor support for applications is not available, the maintenance updates and patches will not be available, thereby limiting the upgrades to the application and the ability to address any security vulnerabilities.

**Recommendation** – Obtain alternate support for the applications or consider migrating to applications that are supported by vendors.

## **2008-06 Segregation of Duties – IT Functions – Significant Deficiency**

**Observation** – Segregation of duties was not appropriately implemented for some of the IT functions, as noted below:

- The programmer analysts for the food services system have administrative privileges to the server and the database.
- Personnel with responsibility for programming have access to Oracle production database

Segregation of duties among various IT functions, particularly programmers with other IT responsibilities such as System Administrator or Database Administrator should be enforced. If separation of duties is not maintained appropriately, programmers could implement changes in production servers without following appropriate change control procedures.

**Recommendation** – Implement appropriate segregation of duties to ensure that appropriate controls are in place to mitigate the risk that unauthorized transactions are executed.

## **2008-07 Control Environment (Previously Reported as 2007-01) – Material Weakness**

**Observation** — The District has not developed a sound internal control environment that is supported by effective policies and procedures for each of its key business processes. Current policies and procedures around payroll, disbursements, fixed assets, inventory, and revenues are inadequately documented and inconsistently applied and communicated to employees. In several instances, no evidence was available to support the performance of a control. The District has not developed a program to train employees on the importance of maintaining controls and taking action when controls fail or imposing discipline when controls are circumvented.

A control environment that is not supported by thoroughly documented and consistently enforced policies and procedures exposes the District to the potential for fraud, waste, and abuse and increases the risk that errors and irregularities occur and do not get detected on a timely basis by employees in their normal course of business.

**Recommendation** — The control environment sets the tone of an organization, influencing the control-consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include integrity, ethical values, and competence of the entity's people, management's philosophy and operating style, the way management assigns authority and responsibility and organizes and develops its people, and the attention and direction provided by the Board of Trustees.

Management's philosophy and operating style have a pervasive effect on the organization. One consistent with a sound control environment is demonstrated when management regards the accounting function as a means for monitoring and exercising control over an entity's various activities. When improper activities are reported to management, they should be communicated to all appropriate parties and addressed in a thorough and timely manner. Management should also openly encourage and acknowledge the practices of employees or departments that promote a sound control environment and ethical behavior.

Management should develop, implement, and enforce a structured program to establish a comprehensive system of internal controls around the key business processes in the District. This program should include:

- Identification of potential errors and related effective controls that should be put in place to address them.
- Documentation of all key policies, procedures, and controls by process. If policies and procedures exist, such policies should be reviewed and revised to ensure they are complete and reflect current practices.
- Communication and training across the key business processes in the District about the importance of controls and each individual's responsibility for maintaining a strong system of controls.
- A system to routinely evaluate and monitor the design and operating effectiveness of controls.
- Clearly communicated expectations regarding controls and accountability to employees and holding employees accountable for breaches of policy, procedures, and controls.
- Requirements for all employees to clearly document their work through retention of sufficient supporting documentation to ensure consistent application of controls and complete and accurate processing of transactions.

**Fiscal year 2008 Status – Material Weakness** – The District has not made notable improvement in its control environment in fiscal year 2008. Formal policies and procedures have not been developed and implemented to support the underlying control structure and many instances were noted where supporting evidence was unavailable to document control performance. Communication, training, and monitoring of management's expectations have not been implemented.

Management should develop, implement, and enforce a structured program to establish a comprehensive system of internal controls around the key business processes in the District as previously recommended.

### **2008-08 Financial Accounting and Reporting (Previously Reported as 2007-02) – Material Weakness**

**Observation** — Financial accounting and reporting in a large organization such as the District is complex and requires not only an understanding of the internal processes of the District, but also a strong accounting knowledge and ability to analyze transactions and determine their impact on financial statements. Several errors were noted during the audit that resulted in material adjustments to current-year financial statements; a number of these errors related to accounting and reporting errors in the prior year which resulted in prior-year adjustments to the opening fund balance and net assets. During the audit process, we noted weaknesses in the general condition of the accounting records relating to many areas, including the following:

1. Staff had difficulty explaining changes in account balances and explaining relationships between changes in operations and related financial accounts.

2. Accounts receivable and payable detail ledgers were not reconciled to the general ledger and several outstanding receivables and payables were not analyzed to determine whether they are valid accounts.
3. The allowance for doubtful accounts related to property taxes receivable was not evaluated to determine the adequacy of the allowance in relation to recent history of collections and adjustments.
4. A number of suspense and inventory accounts improperly carried unresolved balances from prior years.
5. Accrued salaries and wages were understated due to programming errors that resulted in the exclusion of certain employee contracts from the accruals and erroneous management assumptions made about the immateriality of such amounts without proper analysis to determine whether such amounts were significant to the financial statements. Additionally, the related payroll benefits were not properly accrued.
6. Contributions made by third parties for the construction and improvements to the Booker T. Washington campus and for the enhancement of the District's programs had not been analyzed for the proper recording of the related receivables and recognition of revenues.
7. Transactions with other governments were not analyzed to determine the proper recording in the general ledger.
8. Numerous errors were noted related to accounts payable cut-off, including utilities, construction contracts, and other cash disbursement.
9. Nonroutine transactions were not identified and evaluated for proper recording.

All of the above resulted in numerous errors in the financial statements requiring the District to record numerous prior-period adjustments in addition to adjusting entries to correct current-year financial statements. This has also resulted in substantial delays in closing the books and preparing final financial statements and created significant delays in the reporting timeline.

**Recommendation** — An evaluation and restructuring of the financial and accounting processes is imperative to achieve the goal of timely closing of the general ledger, timely preparation of account reconciliations and identification and proper analysis of transactions, and proper accounting and reporting of financial transactions. In order to achieve this, the district should:

10. Perform a business process analysis in the Finance Department of the accounting procedures to ensure that the most effective and efficient transaction flows and approvals are in place to strengthen internal controls and reliability of the financial information.
11. Perform an assessment of the staffing requirements for the financial department, qualifications of staff needed, and job responsibilities.
12. Identify job descriptions, responsibilities, and qualifications needed for various positions and identify the right individuals to assume those roles.
13. Identify the training needs for staff based on the comparison of the qualifications and skills available and those needed to perform at the required level of expertise and develop a comprehensive training program to fulfill those needs.

14. Ensure that all policies and procedures are documented in a detailed manual. A comprehensive accounting policies and procedures manual should be a readily accessible reference to accounting personnel to ensure that accounting policies and procedures are known and followed. Such a manual also benefits the District during turnover of key accounting individuals. With thoroughly documented policies and procedures, the learning period of new employees is reduced and management may have increased assurance that accounting policies and procedures are consistently followed during the transition period.
15. Establish responsibilities for appropriate monitoring and reconciliation of accounts and for the appropriate preparation of reports such as aging of receivables and development of “allowance rates” for estimates of uncollectible amounts and unearned revenues.
16. Develop and implement procedures to review all invoices received subsequent to year-end to ensure proper inclusion in or exclusion from accounts payable.
17. Implement procedures that require the review of nonroutine contracts and arrangements into which the District enters to ensure proper accounting and reporting.

**Fiscal Year 2008 Status – Material Weakness** – The District has taken steps to address issues identified related to reconciliation of accounts and accounting errors. However, deficiencies continued to be identified related to the following:

1. Management does not maintain proper cutoff for expenses and revenues during the year, and as a result, timely and reliable financial information needed for business decisions is not available.
2. Staff and management were still unable to provide analytic explanations of account variances, changes in operations, and relationships between financial accounts. Management had significant difficulty analyzing payroll expenditures compared to budget and compared to prior year.
3. Errors were noted related to accounts payable cutoff.

As in the prior year, the above resulted in adjustment to the financial statements, delays in closing the books, and delays in the reporting timetable. The District should work with the Transformation Management team to achieve the goal of closing the books in a timely manner and preparing accurate and reliable financial statements. This should include the implementation of policies and procedures that require the review of journal entries, and supporting documentation made to prepare both fund level and government-wide financial statements. A process should be in place that requires the review of financial statements and disclosures for completeness, validity, and presentation. Responsibilities of both preparers and reviewers of these financial statements should be clearly defined.

Currently, management has set deadlines for the preparation of financial reports on a monthly and annual basis; however, these deadlines are often not met by report preparers. Certain key reports, such as budgetary comparison reports and grant spending progress reports were not presented to the Audit Committee or the Board on a regular basis for review. As a result, management and the Board often do not have timely and reliable information to review reports for accuracy before they are submitted to the appropriate parties.

District management should develop and implement a plan and schedule of interim financial reports that are prepared, reviewed, and presented to the Board so that actions can be taken and informed decisions can be made in a timely manner. Compile a list of all reports that should be provided to the Audit Committee, the Board, or other third parties on a regular basis and prepare a schedule of assignments for

preparation and review. Implement a series of milestones in the reporting process to ensure that deadlines are met and information is reviewed by management for accuracy prior to submission.

In order to achieve these goals, the District should also continue to work to implement the prior year recommendations listed above.

## **2008-09 Policies and Procedures (Previously Reported as 2007-03) – Material Weakness**

**Observation** — Formalized and up-to-date policies and procedures for the District's key business processes either do not exist, are ineffective, or are inconsistently applied in many key business processes within the District. We noted a number of instances where control activities could not be identified and others where supporting documentation evidencing the control was not complete or did not exist so we could not determine whether these controls were operating effectively. Specifically:

- *Information Technology* — A comprehensive set of information technology- (IT) related policies and procedures have not been established and implemented for the following areas: logical and physical security, change control, database management, and operations management. When IT policies and procedures are not established and implemented by formally documenting and communicating them to employees, it is likely that management's control expectations will not be fully understood or consistently followed.
- *Bank Reconciliations* — The monthly bank reconciliation performed by the Finance Department did not include preparer and reviewer signoff. Preparer and reviewer signoffs are important to be documented in evidence of the performance of the procedure.
- *Grant Revenues* — The supervisory review performed to verify that the total sum amount on the Notice of Grant Award agreed to the Oracle general ledger did not include management review and signoff. Without reviewer signoff, it is difficult to determine whether the control was performed.
- *Reconciliation of General Ledger to Subsidiary Ledgers* — The District does not have a process requiring the reconciliation of general ledger accounts to supporting detail for various accounts receivable and payable balances and does not require the signature of a preparer and supervisory review in evidence of the review. The performance and review of reconciliations between the general ledger accounts and supporting detail for various accounts receivable and payable balances is a key control for detecting potential errors or irregularities in the District's financial activities. All reconciliations should be evidenced with preparer and reviewer signoffs.
- *Payroll* — The District was unable to provide supporting evidence that departmental managers review listings of current employees within their departments and notify the personnel department of necessary changes. Without a periodic review of underlying payroll data by department managers, the District cannot be sure that data used to process payroll is complete and accurate.

Personnel records did not contain all supporting documentations to support changes made to employee compensation, position, or level. As a result, in a number of instances where there were changes in employee levels or positions, we were unable to trace the approval of these changes to original supporting documentation in the employee file.

The Records Inventory Checklist used to verify the completeness of each employee's personnel file does not require signatures to verify that someone actually reviewed the employee's file and made sure that all documentation was included. The checklist was designed by the District to ensure completeness of information in employee files.

The Payroll Module Reconciliation, which reconciles the payroll register to the general ledger, did not include the evidence of the accounting supervisor's review and signoff.

Before the withholding table patch from Oracle is applied to production, payroll personnel indicate that an employee's withholdings are manually calculated to ensure that the correct taxes are being withheld based upon the test data on the test server. However, the District was unable to provide supporting documentation that this test is actually being performed. Without proper supporting documentation, it is difficult to determine whether this control was performed in accordance with expectations. The performance of this manual test is a key control to ensure that the patch applied to production to update the withholding tables was done accurately.

- *Inventory* — On a monthly basis, the Inventory Clerk generates movement reports from Oracle, and the Inventory Director matches the adjustment log to the Warehouse Supervisor's file showing what to discard. Reviews are not performed in regular, set intervals and discarding of items is a manual process with discarded items manually listed in a notepad. No evidence of review or approval prior to the discard process is maintained.
- *Fixed Assets* — The Fixed Assets group relies on the General Fixed Asset Management System (GFAMS) module to calculate all depreciation. There is no evidence that controls are in place to ensure that depreciation charges calculated within GFAMS are valid, accurately calculated, and recorded in the appropriate period.

On a monthly basis, the fixed assets accountant reviews and approves the asset additions report and the fixed asset disposal report for accuracy, validity, and timeliness. However, the Fixed Assets group does not maintain copies of the reports; therefore, no information was available to verify whether this activity was being performed.

When policies and procedures are not formally established, documented, and communicated and when employees are not adequately trained on them or held accountable for applying them consistently and documenting their performance of the controls, the District puts itself at risk for the inappropriate processing of transactions and safeguarding of its assets.

**Recommendation** — Policies, procedures, and controls should be formally established, implemented, and communicated throughout the District at all levels and across all functions. This helps to ensure that all employees fully understand their responsibilities, how controls operate, and the importance of the control process. The District should document its policies and procedures and key control objectives and activities should be identified and documented for each of the District's key business processes. Once documented, the policies, procedures, and controls should be formally approved by the District management and communicated to appropriate staff. The District should also train key employees on how to properly execute and document the performance of key activities.

Management should also consider instituting a sustainable internal controls management program to ensure controls are adequately designed, implemented, executed, and monitored on an ongoing basis. Key features of a well-functioning internal control management program include:

- Adoption of a formal control framework such as the Committee of Sponsoring Organization's (COSO) Control framework to set the expectations for controls
- Accountability for the execution of controls residing with the control owners
- Formal documentation of policies, procedures, and controls
- Linkage of risks (financial, regulatory, programmatic, fraud) to identified control objectives
- Identification of key control objectives and activities by business process

- Development of a control repository to house key controls to their control owners
- Ongoing monitoring of control expectations through periodic self-assessment and/or management testing of key controls across the organization

**Fiscal Year 2008 Status – Material Weakness** – The District has corrected controls around bank reconciliations and inventory in fiscal year 2008. Significant improvements were made in reconciliations between the general ledger and subsidiary ledgers and in the review of grant revenues. However, controls over policies and procedures related to information technology, and payroll (human development) were not found to be operating effectively.

- Information Technology - Comprehensive Information Systems related policies and procedures have not been established, implemented, or aligned across the different IT user groups.
- Payroll – Refer to current year Material Weakness related to Human Development
- Fixed Assets – The fixed assets accountants still place reliance on the GFAMS system to calculate depreciation without further review. Additionally, no evidence of review and approval of monthly fixed asset activity is retained by fixed asset accountants.

When policies and procedures are not established, documented, and communicated and when employees are not adequately trained on them or held accountable for applying them consistently, the District puts itself at risk for the inappropriate processing of transactions and safeguarding of its assets.

Management of the District should continue to work through the key business processes and develop, document, and implement control policies and procedures. Once documented, policies, procedures, and controls should be formally approved by District management and communicated to appropriate staff. The District should train key employees on each of the policies and procedures to reinforce expectations. Additionally, consistent application and compliance with these policies and procedures should be monitored on a routine basis and employees performing such controls should be adequately trained and held accountable for their responsibilities.

## **2008-10 Anti-Fraud Programs and Controls (Previously Reported as 2007-04) – Material Weakness**

**Observation** — While the District has established an internal audit department, the Office of Professional Responsibility, and an Audit Committee in recognition of the importance of maintaining fraud prevention and detection programs, the District currently does not have a documented fraud risk assessment process in place.

The AICPA has published a document entitled *Management Antifraud Programs and Controls — Guidance to Help Prevent and Deter Fraud*. As stated in the publication, “this document identifies measures entities can implement to prevent, deter, and detect fraud. It discusses these measures in the context of three fundamental elements. Broadly stated, these fundamental elements are (1) create and maintain a *culture* of honesty and high ethics; (2) *elevate* the risks of fraud and implement the processes, procedures, and controls needed to mitigate the risks and reduce the opportunities for fraud; and (3) develop an appropriate *oversight* process.”

Although the District has certain programs in place to address the measures described in the AICPA document, we believe that the District could strengthen its fraud deterrence programs through a comparison of its programs to the measures cited by the AICPA. For example, the District should initiate a risk assessment process that evaluates factors that could prevent the occurrence of fraud to occur in the District. This process should involve participation from managers from selected District departments, the District’s internal auditors, and members of the Audit Committee of the Board of Trustees. The objective

of such a process is to document the results and conclusions reached to assist in the design and implementation of new anti-fraud programs and control activities.

In addition, under newly issued AICPA Statements on Auditing Standards which have also been adopted by the U.S. Governmental Accountability Office, in obtaining an understanding of an entity's control environment, independent auditors must consider the design and implementation of programs and controls that address the risk of fraud. Under the new standards, the absence or inadequacy of such programs and controls can represent a significant deficiency or material weakness in an entity's control environment. Auditors must consider such issues as:

- Has management linked risks and schemes identified in the fraud risk assessment process to mitigating programs and controls by analyzing management's mapping of fraud risks to applicable mitigating programs and controls?
- What are the procedures for handling complaints and for accepting and investigating confidential submissions of concerns about questionable accounting or auditing matters?

In the current operating environment there is increased emphasis and media scrutiny on the role of an organization's governing body in its oversight role in assessing and responding to various types of risks, including the risk of fraud. A comprehensive risk assessment would improve the District's ability to anticipate change by identifying the early warning signals and alerting everyone to the cause and effect of various types of risks, including fraud. It also would accelerate the District's ability to respond to change by promoting faster and more precise decision-making.

**Recommendation** — Review the AICPA publication noted above to determine that the focus of the District's anti-fraud evaluation efforts is adequate and complete. Perform a Districtwide risk management analysis under the direction of the Audit Committee of the Board of Trustees and management to identify vulnerabilities to significant fraud, operational and financial risks. A review by the Audit Committee, on an annual basis, of the District's documented risk assessment should be considered. A comprehensive risk assessment process includes the following steps: identify risks, assess impact, prioritize risks, develop action plans, and implement, monitor, and report on necessary changes. These procedures should be performed on a continual basis in order to minimize the following kinds of risk:

- *Strategic Risk* — the risk that the organizational goals will not be achieved due to inadequate responses to external risk factors
- *Operational Risk* — the risk that organizational goals will not be achieved due to the inability to implement effective business or operating decisions and practices.
- *Financial Reporting Risk* — the risk that the objectives of adequate, timely, and reliable financial reporting and disclosure will not be achieved
- *Regulatory Risk* — the risk that the district will not be in compliance with applicable laws and regulations
- *Fraud Risk* — the risk that assets (liquid and other) will be lost through theft or other misappropriation

The results of such assessment should be a comprehensive plan that addresses the above risks. Monitoring controls should be implemented to ensure that the policies and procedures designed by management are implemented appropriately and in a timely manner.

**Fiscal Year 2008 Status – Material Weakness** – As of June 30, 2008, the District had not performed or documented a fraud risk assessment. An outside consulting firm was hired to assist with the risk assessment process; however, this process was delayed indefinitely. The District's Internal Audit department is proceeding with the assessment during fiscal year 2009.

The immediate assessment of risks and implementation of a plan and procedures to address such risks is critical to mitigating the affects such risks have on District's operations – financial or other. Identifying and addressing the risks of the District is a key part of managing the District in a fiscally responsible manner.

## **2008-11 Capital Assets Accounting and Reporting (Previously Reported as 2007-05) – Significant Deficiency**

**Observation** — A number of errors were noted in the capital assets balances that required material adjustments to beginning balances and current additions. These errors resulted from a lack of a detailed review and reconciliation process, weaknesses in communication among District departments with regards to capital asset transactions and transfers out of construction in progress, and the absence of the timely reconciliation of additions to capital outlay expenditures. These errors included:

- Improper capitalization of assets that are leased under operating leases
- Failure to record assets that are leased under capital lease agreements
- Failure to capitalize assets donated by other entities or paid for by other entities on behalf of the District
- Improper expensing of capitalizable costs related to the bond-funded construction program
- Failure to perform periodic counts of capital assets
- Failure to evaluate assets for impairment in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- Failure to reconcile capital asset additions to capital outlay expenditures in a timely manner
- Failure to identify ending construction in progress balances and transfer of completed assets to completed capital assets in a timely manner

Due to increased reporting and accounting requirements brought about by recent statements issued by GASB, an additional reporting burden has been placed on the capital assets accounting function. Additionally, tracking, accounting for, inventorying, and depreciating capital assets must be done on an ongoing basis to comply with the requirements of GASB statements and to enhance controls over capital assets.

The District's capital assets as of June 30, 2007, exceeded \$2.2 billion. The lack of a timely, detailed ongoing reconciliation process for capital assets and communications among District departments and the absence of regular review procedures of capital assets accounting and reporting increases the risk of erroneous financial reporting.

**Recommendation** — Proper accounting and reporting for is crucial for reliable financial reporting. Implement policies and procedures that require the timely reconciliation and review over capital asset information. These procedures should include:

- Maintaining capital asset detail listings and records on a timely basis
- Calculating depreciation and accumulated depreciation on assets
- Reconciling capital outlay expenditures (including all capitalizable construction-related costs) to additions to capital assets and construction-in-progress

- Identifying the financial statement reporting requirement of capital assets and ensuring that staff have the proper training and knowledge of the related GASB reporting requirements
- Establishing a policies and procedures guide to ensure correct identification and reporting of capital assets and the correct lives and depreciation methods and updating the lives based on District experience
- Establishing the business processes and related written procedures between the operating departments and the accounting department to ensure timely and accurate reporting of capital asset activities such as leases, acquisitions, and donations
- Establishing and maintaining physical inventory procedures including an independent verification process on a regular basis in total or sample basis to ensure the existence of assets recorded and the tagging of such by operating departments
- Tracking the status of completion of construction progress and transferring completed projects to the proper asset category
- Performing and documenting the evaluation of capital assets for impairment on annual basis
- Assessing whether the current capital assets module used by the District is adequate for the needs of the District

**Fiscal Year 2008 Status – Significant Deficiency** –The District took steps to reconcile and record capital assets details to the general ledger as of June 30, 2008. However, management should implement certain corrective actions necessary to ensure timely and accurate capital asset reporting. Specifically:

- Develop and implement formal policies and procedures to ensure the regular and timely communication between departments that is required to properly capture capital asset information throughout the year;
- Formally review non-capitalizable assets acquired under license and similar arrangements with useful lives of one year to ensure they have not been capitalized;
- Require cyclical counts of capital assets to verify their existence;
- Regularly review the reconciliation between the fixed asset General Ledger (GL) Activity Report and the General Fixed Assets Management System (GFAMS); and
- The District has not implemented control activities that require the regular review of fixed asset maintenance records to determine whether maintenance expenses should be capitalized.

Action should be taken to address the deficiencies noted above and implement policies and procedures to produce and support reliable accounting and reporting related to capital assets.

## **2008-12 Grant Compliance, Accounting, and Reporting (Previously Reported as 2007-07) – Noncompliance with Laws and Regulations and Material Weakness**

**Observation** — The District does not have formal, Districtwide procedures in place to monitor compliance with grant regulations on the front-end of each transaction. In addition, program management for several grant programs has not been consistent due to employee turnover.

The District does not have written accounting procedures for grant accountants to maintain consistency and accuracy in the accounting process. Weaknesses around the grant accounting and monitoring processes include:

- Accruals for grant-related expenditures are not monitored to ensure that they are properly supported during the year. This leads to the over- or under-requesting of grant funds due to improper accruals.
- The District does not have a process in place that requires timely submission of reimbursement requests from granting agencies. Texas Education Agency (TEA) does not, in most cases, set formal deadlines for drawdown requests as most grants can be rolled over to the next fiscal year. However, untimely requests make the accounting and reconciliation process more difficult and negatively impact the available cash flow for the District.
- The District does not use account codes consistently during the grant accounting process. For example, liabilities are often recorded as negative receivables; revenues are occasionally recorded as negative expenditures.
- The District has not reconciled its receivable and revenue balances in grant funds for at least three years.

The lack of consistent program management and incongruities in the accounting process led to questioned costs during the Single Audit and other audits performed by granting agencies.

In addition, 2 out of 15 drawdowns tested during the Single Audit for cash management and reporting compliance requirements were submitted to TEA more than 3 months after year-end. Sixteen out of 29 funds selected for receivables testing had requests for reimbursement made 3 months or more after year-end. One of those 29 funds had not had any reimbursement requests submitted as of December 2007, 6 months after year-end.

Lack of consistent program management has caused the District to request reimbursement for disallowed expenditures. Erroneous accruals have also led the District to either over- or under-request funds from granting agencies, thus making the year-end reconciliation process more difficult and, causing adjustments in the majority of grant-related funds.

Finally, as the grants referred to above are reimbursement in nature, the District is utilizing general fund money to subsidize the special revenue funds until reimbursements are requested and received. As such, decreased cash flows in the general fund ultimately result in lower investment earnings to the general fund.

**Recommendation** — Implement policies and procedures that require the following:

1. Require centralized approval for all grant expenditures, including payroll, by one consistent person or group of people knowledgeable of grant requirements. This policy would ensure that no specific grants are unmonitored during times of employee turnover.
2. Implement more rigorous training for individuals responsible for both monitoring grant compliance and accounting for grant-related transactions. In addition, the District should train all employees involved in spending grant funds regarding allowable costs and other granting agency requirements.
3. Implement written accounting procedures to achieve a more appropriate and more consistent use of accounting line codes.
4. Establish set self-imposed deadlines for reimbursement requests and more closely monitor the timeliness of requests for each grant.

5. Perform a reconciliation of grant receivables and revenue. Subsequent receipts should be reconciled with each drawdown requested to ensure that the District does not have any uncollectible receivables or any liabilities to the granting agency.

**Fiscal Year 2008 Status – Material Weakness** – Management has not implemented formal, District-wide procedures to monitor compliance with grant regulations. Grant management took steps to correct accounting procedures related to grant accounting and monitoring near the end of fiscal year 2008; however, certain deficiencies were noted as follows:

- Accruals for grant-related expenditures were not monitored consistently throughout the year to ensure that they were properly supported.
- A formal process was put in place in April 2008 to ensure the timely submission of reimbursement requests from granting agencies.  
No reconciliation process existed for reimbursement requests until year-end.
- The District has not fully implemented the recommended account codes prescribed by the TEA Resource Guide.
- The District reconciled revenue and receivable balances in the grant funds at the end of fiscal year 2008; however, these reconciliations were not performed consistently throughout the entire fiscal year.
- A policy was implemented in February 2008 that requires centralized approval of all grant expenditures, including payroll, by the District's Grant Compliance department. No such approvals were required prior to February.
- The District underspent available grant funding by approximately \$26.7 million in the largest grant funds.

Policies and procedures should be implemented according to the recommendations noted in the prior year.

#### **2008-13 User Access Management and Security (Previously Reported as 2007-08) – Significant Deficiency**

**Observation** — Security configurations and the access management processes for IT systems were found to be weak which could impact the integrity and confidentiality of data processed by the financial systems. Specific weaknesses include:

- Generic accounts and their common password (as opposed to individual accounts) are shared by multiple personnel administering the IT systems. The sharing of passwords makes it difficult to hold any one person accountable for the proper administration of these accounts.
- Security parameters are not properly configured to force IT systems users to use a strong password on financial data processing applications, databases, the network, and the operating systems. If strong passwords are not used, access to the IT systems can be easily compromised by internal as well as external parties.
- Security parameters over the file systems and databases are not adequate. Specific weaknesses include:
  - i) Access to use the high-privileged account (root) in the Unix system appears to be excessive and a large number of files are configured to be readily modifiable (world-writable) by

anybody having a user account on the system, which leads to increases in the risk of unauthorized changes being made to the system

- ii) The key tables in the Paradox system are not encrypted; therefore, it is possible for the administrative personnel to view confidential information
- iii) The default account passwords for the Oracle Database have not been changed and database security parameters are not as strong as they need to be to prevent unauthorized access
- The number of people with administrative privileges to Oracle Financials (32 users), Oracle database (9 users), and UNIX system (8 users) is excessive compared to the size of the IT organization. Administrative privileges should be limited only to those individuals that need to properly administer each of the IT systems. Having this many users with this type of open privilege increases the District's risk for error and irregularities.
- Controls over and monitoring of user access privileges were found to be insufficient or inconsistently applied which increases the risk for unauthorized access and modification to District information. Specific weaknesses include:
  - i) Access privileges are not periodically reviewed to ensure privileges are limited to current employees and that the levels of access of employees have is consistent with their job responsibilities
  - ii) Terminated employees access is not consistently and timely removed

The access of users who recently transferred to new responsibilities is not consistently reviewed and modified according to the new responsibilities. Poor controls over access to IT systems and inappropriate configuration of security parameters can lead to execution of unauthorized transactions, compromised segregation of duties, and integrity and reliability issues for the information produced by the IT systems.

**Recommendation** — The District should enhance its access management processes and security configurations to address each of the identified weaknesses above. IT system policies and procedures for these areas should be documented and communicated to employees and appropriate monitoring controls should be established to ensure they are being consistently followed by the administrators and users of the IT systems.

**Fiscal year 2008 Status – Significant Deficiency** – The District has not taken notable corrective actions to improve access controls and security over IT systems.

- The security parameters are not configured to force IT systems users to use a strong password on financial data processing applications- Paradox budgeting system and Horizon (VBOSS) Food services system. The GFAMS Fixed Assets system does not force the users to use a complex password.

It was noted that the users are required to authenticate to the network before accessing the above systems. However, to implement effective security, management should implement strong password controls for all the application systems.
- The security over the file systems and databases should be improved- in Paradox system, the key tables are not encrypted
- Management has initiated a periodic user access review process for Oracle financials, but this process was not completed due to technical issues. The periodic access review process has not been implemented for other financially significant applications.
- The super user access to certain functions within Oracle Financials is assigned to an excessive number of users.

- Three terminated user accounts were noted to be active on Oracle database and additionally some user accounts whose access is not required for Oracle database were noted to be active.
- Authorization for access for some of the personnel with rights to the data center was not retained.

A lack of controls over information systems access and inappropriate configuration of security parameters can lead to unauthorized transactions being executed, compromising the intended segregation of duties and ultimately causing integrity and reliability issues in the information produced by the information systems .

Document and implement policies and procedures to adequately control system access and to ensure appropriate configuration of security parameters. Appropriate monitoring controls should be established to ensure the documented policy is being followed by the users of Information Technology systems.

### **2008-14 Controls Over Master Files (Previously Reported as 2007-09) – Significant Deficiency**

**Observation —** The District has not implemented adequate master file controls to appropriately manage the vendor, payroll, food service inventory, and fixed assets master files. These master files contain critical data that supports the operations of various business processes of the District. Data from these master files is used as the basis for transaction processing that is ultimately reported in the financial statements. Specific weaknesses include:

#### *Vendor Master File:*

- Vendor master file data is not periodically reviewed by management for accuracy and ongoing pertinence.
- Significant changes to the vendor master file are not approved by management and there are no controls in place to ensure that recorded changes to the vendor master file are input accurately. If changes to the vendor master file are not input and processed or are input and processed incorrectly, the results could include ordering goods or services from unapproved vendors, sending payments to incorrect addresses, or changing payment and discount terms without proper authorization.

*Fixed Asset Master File —* Controls do not exist to ensure that recorded changes to the fixed asset master file are input accurately. Failure to process all valid changes to the fixed asset register and/or master file could result in errors in classifications of capital assets, valuation of capital assets, or the use of incorrect depreciation rates.

*Inventory Master File —* Controls are not adequately designed to ensure that only valid changes to the inventory master file are made and that they are input accurately and processed timely. Inaccurate, unauthorized, or delayed changes to the inventory management master file could result in order, processing, and pricing errors.

**Recommendation —** Enhance control procedures over all master files. Input of, changes to, and processing of master data should be controlled appropriately to ensure reliability of financial information. Documentation should be maintained to evidence that changes to the master files are validated. A good balance of preventive and detective controls over master files should be established as part of the District's internal controls structure for maintaining the integrity of financial information.

**Fiscal Year 2008 Status – Significant Deficiency –** Control activities were not implemented to manage the District's master files for fiscal year 2008. The District implemented a corrective action plan related to the vendor master file in April 2008; however, the progress made during fiscal year 2008 was not

significant enough to impact the operating effectiveness of control activities. Control procedures should be implemented according to the recommendations noted in the prior year.

#### **2008-15 Change Management Processes (Previously Reported as 2007-10) – Significant Deficiency**

**Observation** — The District has not implemented a formal process for change management for the IT systems and the documentation of testing and approval of changes is not being maintained. Additionally, separate test, development, and production environments are not maintained for financial systems.

Failure to establish and enforce effective change management procedures could lead to unauthorized or incorrect changes to be implemented in the production environment, ultimately affecting the integrity of financial information produced by the systems.

**Recommendation** — The District should implement a formal process for change management of IT systems. The process should include:

- Documentation of formal policies and procedures
- Authorization requirements for making changes
- Adequacy of testing
- Responsibility for authorizing and implementing changes
- Controls for making emergency changes in the production environment directly
- Segregation of duties measures to prevent unauthorized changes

Additionally, all modifications to applications should be tested in an environment that is separate from the production environment and only moved into production after a final review of the change is performed by management.

**Fiscal Year 2008 Status – Significant Deficiency** – The District has not implemented formal change management processes for its IT systems. Processes should be implemented according to the recommendations noted in the prior year.

#### **2008-16 Disaster Recovery and Business Continuity (Previously Reported as 2007-11) – Significant Deficiency**

**Observation** — The existing Disaster Recovery process for financial data was found to be ineffective. The off-site storage of data backups and disaster recovery testing has not been properly implemented. Specific weaknesses include:

- Management has not tested the disaster recovery plan for key IT systems in the current year.
- Backup tapes have not been sent to the contracted off-site facility since July 2006.
- According to District policy, tapes are to be rotated six days a week to a tape vault located within the same building where the Oracle production server is and only once a week are the tapes to be rotated to the off-site facility. As a result, tapes are in very close proximity of the actual production systems for six days until they are moved off-site and are therefore at risk of being comprised in the event of disaster affecting the building.
- The tapes for food service systems are rotated to the off-site facility only on a monthly basis while the administrators take the daily backup tapes with them to their home. Although the daily

backups are removed from the site, the history of monthly transaction would be lost in the event of a disaster at the food service location. Additionally, the District increases its risk of unauthorized access to or loss of highly sensitive District information by allowing employees to take backup tapes home with them.

- Only one person is configured in the backup utility software to be responsible for backups of the food services system. Required backups may not be performed in the absence of this one individual which puts the District at risk if a disaster were to occur.

If a well-designed and implemented disaster recovery process is not in place, management may not be able to recover critical systems in the event of a disaster or the recovery may not meet the business needs or intended service levels required at the time of a disaster.

**Recommendation** — The District should implement a process for reviewing and redesigning the current disaster recovery practices including disaster recovery requirements, backup schedule, off-site rotation requirements, and testing procedures with a planned approach to recovering the information system resources in case of disaster. The established plan should be tested on a periodic basis (preferably on a yearly basis) to ensure that the systems could be recovered in a timely manner as planned.

**Fiscal Year 2008 Status – Significant Deficiency** – The District has a Disaster Recovery Process. However, not all parts of the disaster recovery plan have been tested within the past 12 months and off-site data storage processes have not been properly implemented.

If a well designed and implemented disaster recovery process is not in place, management will not be able to recover critical systems in the event of a disaster or the recovery may not meet the business needs or intended service levels required at the time of a disaster.

Implement a process for review of disaster recovery practices including disaster recovery requirements, backup schedule, off-site requirements, and testing procedures with a planned approach to recovering the information system resources in case of disaster. The established plan should be tested on a periodic basis (preferably on a yearly basis) to ensure that the systems could be recovered in a timely manner as planned.

## **2008-17 Capital Assets Physical Inventory (Previously reported in 2007 management letter as control deficiency) – Significant Deficiency**

**Observation** — An inventory of fixed assets is not performed on an annual basis by the District. The Fixed Assets Department performs an inventory audit for the District only on even years.

Without an annual physical inventory of fixed assets, the District cannot be assured that fixed assets exist, can be located, and are accurately recorded in the District's accounting records. This increases the risk that the old and obsolete items are carried on the books and are not disposed of timely, that assets which cannot be located have been lost or stolen and not been reported and recorded in accordance with District policy, and that the District's financial statements in the year an annual inventory is not taken and reconciled to the accounting records are misstated.

**Recommendation** — Annual physical inventories of fixed assets should be conducted to ensure that all property exists and can be located and reconciled to the District's fixed asset records. The inventory should be performed by someone independent of the personnel maintaining the fixed asset records to maintain segregation of duties and ensure adequate control over fixed assets.

**Fiscal Year 2008 Status – Significant Deficiency** – The District did not perform a physical inventory during fiscal year 2008. Therefore, the District is in violation of the requirements set forth by the *Code of*

*Federal Regulations Title 2, Part 215, Section 34(3)*, which requires a physical inventory to be performed not less than once every two years.

#### **2008-18 Lease Assessments (Previously reported in 2007 management letter as control deficiency) – Significant Deficiency**

**Observation —** The District is a party to approximately 34 operating leases, 26 in which the District is the lessor and the other 8 in which the District is the lessee. Prior to fiscal year 2007, the District had not performed or documented a formal lease assessment on any of its 34 leases. In addition, the lease payments for two of the District's operating leases in which the District is the lessee were being capitalized. Each lease entered into by the District should be assessed to determine whether the lease should be treated as capital or operating. This assessment should be documented.

The lack of formal lease assessments for each lease to which the District is a party could lead to the failure to record an asset and/or capitalize lease payments related to a capital lease.

**Recommendation —** Implement policies and procedures that require the timely assessments of leases to determine whether they are operating leases or capital leases and ensure proper recording of such transactions.

**Fiscal Year 2008 Status – Significant Deficiency –** The Finance Department has assessed certain lease agreements for contracts in which the District is the lessee. However, a number of copier leases were noted in the current year that were not addressed in the District's list of lessee agreements. Additionally, the District failed to maintain a list or comprehensive inventory of contracts in which the District is the lessor. Such a list should be the basis for reconciling lease income at year-end.

The Finance Department should coordinate its information with the Real Estate office to ensure that lease-related data is current and comprehensive. Policies and procedures should be implemented to assess each lease on the comprehensive list to determine the proper accounting.

#### **2008-19 State Compliance – Noncompliance with Laws and Regulations and Significant Deficiency**

**Observation —**

Use Of Proper Account Codes and Funds (Previously reported in 2007 management letter as control deficiency) - The District is using more fund numbers than are established by the TEA *Financial Accountability System Resource Guide*. School districts should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

In addition, the District is using a locally defined grant organization code to charge certain expenditures funded by grants instead of using campus codes. As a result, the District is unable to track where centralized grant funds were spent by campus using the campus code and therefore is unable to determine total expenses by campus.

Monitoring of State Mandated Programs (Previously reported as 2007-14) - As defined in the Texas Education Agency Resource Guide, "for programs financed under the Foundation School Program Act (state mandated programs), rules of the State Board of Education provide that allocations must be used in

the program areas prescribed by law, except for percentages as indicated below. The percentages indicated below can be used for any legal purpose including indirect costs in support of the program:

Program	Percentage Allowable
Bilingual Education	15%
Compensatory Education	15%
Gifted and Talented	15%
Career and Technology	10%
Special Education	15%

As such, the District is required to monitor and spend 85% of each of its state mandated programs' allotment on total direct costs for each program. However, during fiscal year 2007, the District spent only 79% of its Foundation School Programs Compensatory Education Allotment on direct program costs.

**Recommendation** – Review the required and recommended fund codes and campus in the TEA *Financial Accountability System Resource Guide* and align the District's fund structure with those requirements and recommendations.

Monitor spending and compliance with state requirements for all state mandated programs on a regular basis. Compliance should not be dependent on the final assessment of "unallocated" expenditures by the state.

**Fiscal Year 2008 Status – Significant Deficiency** – The District has performed no reviews of its account code structure to realign with state-required reporting guidelines. Many instances were noted in which the District used improper fund, function, organization, and/or object codes for financial statement items (assets liabilities, revenues, expenditures). Management should review the District's chart of accounts in comparison to the TEA *Financial Accountability System Resource Guide* and align the District's account code structure to comply with those requirements and recommendations. Inaccurately reporting expenditures may result in noncompliance with state or federal grant or reporting requirements and ultimately affect state and/or federal aid provided to the District.

During fiscal year 2008, the District spent only 78% of its Foundation School Programs Compensatory Education Allotment on direct program costs. Additionally, no monitoring of Foundation School Program Allotments was performed during the year.

#### **2008-20 Unauthorized Alien (Previously Reported as 2007-18) – Noncompliance with Laws and Regulations and Significant Deficiency**

**Observation** – Title 8, Chapter 12, subchapter II, part VIII, Section 1324 a of the U.S. Code states that it is unlawful for a person or other entity to hire or to recruit or to refer for a fee for employment in the United States an alien knowing that the alien is an unauthorized alien. A test of the District's active employees revealed that the District employed and paid one undocumented worker during fiscal year 2007. The employee was using a deceased person's social security number.

**Recommendation** – Verify all social security numbers upon hiring. Implement procedures to ensure that the potential employee's information (name, date of birth, etc.) matches the information associated with the social security number.

**Fiscal Year 2008 Status – Significant Deficiency**– The District was unable to provide support for two individuals who had social security numbers that could not be verified.

**2008-21 Conflict of Interest Statements (Previously Reported as 2007-15) – Noncompliance with Laws and Regulations and Significant Deficiency**

**Observation** – The State of Texas Attorney General's Opinion No. JM-424 concerning conflicts of interest of certain local officials including school board trustees states that a school district can do business with an entity in which a board member has a substantial interest, if the board member has appropriately filed an affidavit with the board disclosing such interest, and if the board member abstains from voting on actions pertaining to the interest. The definition of substantial interest is a part of the Code, and includes a nepotism clause. Chapter 171 of the Local Government Code defines a person as having a substantial interest in a business entity if: (1) the person owns 10 percent or more of the voting stock or shares of the business entity or owns either 10 percent or more or \$15,000 or more of the fair market value of the business entity; or (2) funds received by the person from the business entity exceed 10 percent of the person's gross income for the previous year.

Conflict of interest statutes also apply to individuals designated as school district investment officers. The Public Funds Investment Act contains requirements relating to the disclosure of financial interests (of investment officers) in entities providing investments and/or other financial services to the district. For example, a disclosure in the format prescribed by the Texas Ethics Commission is required to be filed by an investment officer when the investment officer's money market account is managed by an entity that sells securities to the district.

The District currently obtains conflict of interest statements from Board members; however, when conflict of interest statements are received from District employees, they are filed in the respective employee's personnel file and records are not consistently maintained in the purchasing or legal departments. Such departments should be informed of conflicts when entering into agreements on behalf of the District and, therefore, need to be apprised of any such conflicts in a timely manner.

**Recommendation** – Ensure that all required conflicts of interest statement are obtained and communicated to legal department and purchasing. Monitor conflicts of interest as they are filed and forward relevant information to the affected departments.

**Fiscal Year 2008 Status – Significant Deficiency** - The District has not taken steps to properly obtain conflict of interest statements or communicate them to the purchasing and legal departments. Therefore, such conflicts cannot be appropriately monitored.

Develop and implement policies and procedures to obtain, file, and monitor conflicts of interest in the appropriate departments affected by such conflicts.

### **Section III—Federal Award Findings and Questioned Costs**

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#### **2008-22 Insufficient Documentation of Payroll and Payroll-Related Costs**

##### ***Allowable Costs and Cost Principals – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Special Education Cluster (84.027, 84.273), Texas Reading First (84.357), Adult Education Basic Grant (84.002), Teacher Incentive Fund (84.374), 21<sup>st</sup> Century Learning Centers (84.287), Special Education Grants for Infants and Families (84.181)

**Criteria** – In accordance with OMB Circular A-87, to be allowable under federal awards, costs must be necessary and reasonable and be supported by adequate documentation.

**Condition** - The District was unable to provide supporting documentation that the salary paid to selected employees was accurate and approved by management or based on the Board-approved salary manual. In certain instances, the District overcharged the grant for payroll and payroll-related expenditures due to incorrect hourly rates charged to the grant, improper allocation of salaries and related charges, or insufficient documentation.

Additionally, the District charged salaries for nurses to Title I, Part A. These positions were not included in the District's overall needs assessment or individual campus improvement plans, and the District was unable to provide supporting documentations that these positions were supplemental in nature.

**Perspective/Instances** – The following instances contributed to the questioned costs listed below:

4 of 474 personnel files could not be located.

42 of 474 payroll selections revealed salaries with pay rates above the management-approved rate or rate per the District's salary manual. While the Board-approved salary manual allows for the payment of individuals above the approved standard range, the amount above the range maximum should not be charged to federal funds.

58 of 474 payroll selections were missing documentation to support costs charged to the grant.

31 of 474 payroll selections were charged an amount higher than approved due to an improper rate or allocation.

28 nurses were charged to Title I, Part A

##### **Questioned Costs –**

Title I, Part A – \$1,668,654

Title II, Part A – \$48,708

Title III, Part A – \$52,244

Special Education Cluster – \$35,599

Texas Reading First – \$11,453

Adult Education Basic Grant – \$150,239  
Teacher Incentive Fund – \$56,912  
21<sup>st</sup> Century Learning Centers - \$7,227  
Special Education Grants for Infants and Families - \$102,057

**Cause** - District management and the Human Development department have not implemented policies and procedures to monitor the status or completeness of personnel records. Checklists exist for the documents that should be contained in such files, but are not consistently completed or checked.

The District's payroll system is programmed with standard allocations for salaries and benefits. Numerous manual entries and adjustments must be made monthly to correct exceptions to the standard allocations. Due to original system programming and decisions made by District management to allocate each salary-related line item on a monthly basis, the volume of manual adjustments made monthly increases the risk that errors will occur and grants will be over- or under-charged.

**Effect** - District payroll and personnel records are incomplete and documentation is inconsistent. No single department "owns" such files and takes responsibility for correcting missing documentation.

Improper charges to federally funded programs can and do occur when monthly allocation adjustments do not match time and effort reports and certifications.

**Recommendation** - When there are changes in positions or salaries, update employee personnel files with supporting documentation, such as personnel payroll authorization forms. Ensure that all amounts charged to grants are necessary, reasonable, and in compliance with federal grant requirements. Review the overall needs assessment and individual campus improvement plans for sufficiency.

**View of Responsible Officials** – See corrective action plan.

## **2008-23 Time and Effort Documentation**

### ***Allowable Costs and Cost Principals – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Texas Reading First (84.357), Special Education Cluster (84.027, 84.173), Special Education Grants for Infants and Families (84.181), Adult Education Basic Grant (84.002), Teacher Incentive Fund (84.374)

**Criteria** – In accordance with OMB Circular A-87, "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages [should] be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications [should] be prepared at least semi annually and [should] be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

**Condition** – Certifications of time and effort were not obtained at least semi-annually in accordance with federal requirements for selected personnel charged to grant programs. In addition, some selected personnel were charged to the incorrect grant program according to their time and effort certifications.

**Perspective/Instances** – 33 of 474 employees selected for testing lacked appropriate time and effort documentation to support the work they performed for the grant.

**Questioned Costs** –

Title I, Part A – \$131,737

Title II, Part A – \$232,439

Title III, Part A – \$9,469

Texas Reading First – \$90,703

Special Education Cluster – \$60

Special Education Grants for Infants and Families – \$122,946

Adult Education Basic Grant – \$55,526

Teacher Incentive Fund – \$55,320

**Cause** – Lack of monitoring of compliance with grant requirements appears to have caused the oversight. Internal controls were not consistently implemented during the year to ensure that employees charged to the grants maintained the required time and effort documentation to support the allocation of their payroll to the grants.

**Effect** – The District did not comply with federal documentation requirements. Untimely certifications of employees' time and effort and insufficient monitoring of payroll expenditures in grant funds can lead to overcharges to Federal grants.

**Recommendation** – Obtain and review semi-annual certifications for all personnel working in federal grant programs in accordance with OMB Circular A-87. Implement procedures to monitor compliance with federal grant requirements on a regular basis. Implement a process to ensure that employees are charged to the grants where they spent their time and effort.

**View of Responsible Officials** – See corrective action plan.

**2008-24 Costs Charged to Central Organization Codes**

***Allowable Costs and Cost Principals – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), 21<sup>st</sup> Century Learning Centers (84.287), Texas Reading First (84.357)

**Criteria** – Grant funds should be spent only for appropriate allowable costs, which include certain program administrative costs, and direct costs related to eligible campuses only. Costs should not be allocated to ineligible campuses.

Allowability of costs is partially dependent on campus eligibility as a designated Title I, 21<sup>st</sup> Century, or Texas Reading First school. As the District has implemented "schoolwide" Title I programs, eligible campuses must meet the criteria for Title I schoolwide attendance areas set forth in the March 2008 Compliance Supplement. 21<sup>st</sup> Century and Texas Reading First campuses must be approved by the Texas Education Agency in the funding application submitted by the District prior to funding approval. Use of central organization codes for charges that are non-administrative in nature does not allow the District to show that funds were spent on eligible campuses only.

**Condition** - All expenditures in the 21<sup>st</sup> Century Learning Centers program and a large portion of the expenditures for Texas Reading First and Title I, Part A programs were charged to central organization codes in the general ledger. Allowability of costs is partially dependent on campus eligibility as a designated campus. Use of central organization codes for charges that are non-administrative in nature does not allow the District to demonstrate that funds were spent on eligible campuses only without going to the original supporting documentation.

**Perspective/Instances** – 100% of Texas Reading First expenditures are charged to central organization codes along with approximately 51% of Title I, Part A expenditures and 42% of 21<sup>st</sup> Century Learning Centers expenditures.

**Questioned Costs** – The District was able to provide support that selected costs charged to central organization codes were attributable to eligible campuses, with the exception of the following amounts:

Title I, Part A - \$33,795

21<sup>st</sup> Century Learning Centers - \$9,852

**Cause** - The District has excessively used the locally defined campus/organization code beyond its intended definition, resulting in non-administrative expenses being coded to a central organization code that should have been coded to the actual campuses.

**Effect** - Failure to use proper account codes for expenditures or to otherwise track expenditures by location results in incomplete and inaccurate record keeping. An inordinate amount of time is required to determine the locations to which goods and services are distributed when simple proper use of account codes could accomplish the same task.

**Recommendation** - Review and revise the current account code structure for central organization codes and utilize the TEA-approved code structure, limiting the number of locally-defined organizations to the minimum necessary. Alternately, assign responsibility for tracking and monitoring the activity of central organizations to ensure that ineligible campuses are not served by the respective funds.

**View of Responsible Officials** – See corrective action plan.

## **2008-25 Insufficient Documentation for Non-Payroll Expenditures**

### ***Allowable Costs and Cost Principals – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** – Title II, Part A (84.367), 21<sup>st</sup> Century Learning Centers (84.287)

**Criteria** - In accordance with OMB Circular A-87, all grant expenditures must be supported by adequate documentation.

**Condition** - The District was unable to provide adequate documentation to support grant expenditures related to non payroll expenditures.

**Perspective/Instances** – The District was unable to provide documentation to support the allowability of 4 of 167 expenditures selected for testing.

**Questioned Costs –**

Title II, Part A - \$3,932

21<sup>st</sup> Century Learning Centers - \$56,745

**Cause** - District employees (1) failed to adequately review invoice detail; (2) maintain support for internally generated invoices; or (3) failed to maintain adequate supporting documentation.

**Effect** - Overcharges to federally funded programs can occur when sufficient monitoring of invoices and supporting documentation does not occur prior to approval for payment.

**Recommendation** - Implement procedures to monitor compliance with federal grant requirements on a regular basis.

**View of Responsible Officials** – See corrective action plan.

**2008-26 Monitoring Maintenance of Effort**

***Level of Effort – Significant Deficiency – Controls over Grant Requirements***

**Programs** - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21<sup>st</sup> Century Learning Centers (84.287), Special Education Cluster (84.027 and 84.173), Adult Education Basic Grant(84.002), Special Education Grants for Infants and Families (84.181)

**Criteria** - Maintenance of effort calculations should be reviewed and maintained by someone knowledgeable of the compliance requirement to ensure that the required level of effort is maintained.

**Condition** - Maintenance of effort calculations were not monitored during the year and program managers are not knowledgeable of maintenance of effort requirements. However, no violations of maintenance of effort requirements were noted during testing.

**Perspective/Instances** – Not applicable

**Questioned Costs** – Not applicable

**Cause** - The District does not adequately train program managers to be knowledgeable of all compliance requirements related to their respective programs.

**Effect** - Failure to maintain the required level of effort could impair future grant funding.

**Recommendation** - Implement controls that require a person knowledgeable of grant requirements to monitor the maintenance of effort calculations throughout the year.

**View of Responsible Officials** – See corrective action plan.

## **2008-27 Program Management – Teacher Incentive Fund**

### ***Allowable Costs and Cost Principals, Eligibility, Period of Availability of Federal Funds – Significant Deficiency – Controls over Grant Requirements***

#### **Programs - Teacher Incentive Fund (84.374)**

**Criteria** - Controls should be in place to ensure that Federal awards are expended only for allowable costs and that only eligible individuals receive compensation from Federal awards.

**Condition** - Compensation incentives make up 60% of program expenditures for the Teacher Incentive Fund. During the year, processing of compensation incentives was divided among multiple departments, and there were no centralized control activities to ensure that all incentives paid were allowable and only eligible employees received incentive pay.

In addition, the Teacher Incentive Fund came under new management in April 2008. From April 2008 through the end of the fiscal year, the new program manager was not granted budgetary authority over the grant funds and therefore no authority to approve grant expenditures or ensure that expenditures were properly cut off at the end of the period of availability.

**Perspective/Instances** – Not applicable

**Questioned Costs** – Not applicable

**Cause** - Communication among district departments is weak, and there was no central person or department overseeing the Teacher Incentive Fund program.

**Effect** - Grant funds may be misspent or mismanaged when proper reviews are not performed. The District is responsible for all funds received and may be liable for repayment of funds if they are determined to be spent improperly.

**Recommendation** - Establish policies and procedures to better facilitate communication among District departments and to ensure that one central person or department has the authority to spend grant funds.

**View of Responsible Officials** – See corrective action plan.

## **2008-28 Special Education Grants for Infants and Families Transition Plans**

### ***Special Tests and Provisions – Significant Deficiency – Noncompliance with Grant Requirements***

#### **Programs - Special Education Grants for Infants and Families (84.181)**

**Criteria** - When a child receiving early intervention services reaches age 2 or older, a transition plan must be developed and documented in the Individualized Family Service Plan (IFSP). Transition plans should detail appropriate future settings for the child and provide information and training for parents regarding future options available to their child.

**Condition** – Transition plans do not include detailed strategies or appropriate future settings for the child, nor do they contain any evidence that information and training have been provided to the child's parents.

**Perspective/Instances** - Not applicable

**Questioned Costs** – Not applicable

**Cause** –The District is using a generic IFSP template to document transition plans, which does not include all of the information required by the Texas Department of Assistive and Rehabilitative Services (DARS) ECI policy manual.

**Effect** – Failure to follow grant requirements could result in fewer grant funds awarded in future years.

**Recommendation** - Develop and implement procedures to ensure transition plans meet the specific criteria required by the Texas Department of Assistive and Rehabilitative Services.

**View of Responsible Officials** – See corrective action plan.

## **2008-29 Special Education Grants for Infants and Families Follow-Along Services**

***Special Tests and Provisions – Material Weaknesses –Material Noncompliance with Grant Requirements***

**Programs** - Special Education Grants for Infants and Families (84.181)

**Criteria** – The Texas Department of Assistive and Rehabilitative Services requires that follow-along services be offered to children referred to the ECI program but are deemed ineligible or decline comprehensive services.

**Condition** – The District could not provide a list of cases referred to the program that were deemed ineligible or declined services and should therefore be offered follow-along services. Therefore, this compliance requirement could not be tested.

**Perspective/Instances** – Not applicable

**Questioned Costs** – Not applicable

**Cause** – The District does not have an internal system in place to keep track of the children who have been evaluated for ECI services.

**Effect** – Without a mechanism to track the children referred to or enrolled in the program, the District cannot ensure that all cases are accounted for or that all services are provided in accordance with grant requirements.

**Recommendation** – Develop and implement an internal system to keep track of children referred to, enrolled in, and discharged from the program and the services provided for each case.

**View of Responsible Officials** – See corrective action plan.

## **2008-30 Periodic Review of Individualized Family Service Plans – Special Education Grants for Infants and Families**

### ***Special Tests and Provisions – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** - Special Education Grants for Infants and Families (84.181)

**Criteria** - Every child receiving early intervention services must have a written Individualized Family Service Plan (IFSP) developed by an interdisciplinary team. Grant requirements state that all IFSPs must be reviewed not less than every six months by someone knowledgeable of the compliance requirements to determine if the children being served are still eligible and whether the IFSP should be changed to better meet the children's developmental needs.

**Condition** - Individualized Family Service Plans were not consistently reviewed at least every six months.

**Perspective/Instances** – 5 of 25 IFSPs selected for review did not contain documentation of a six-month review.

**Questioned Costs** – Not applicable

**Cause** – The District does not have control activities in place to monitor whether all IFSPs are reviewed timely in accordance with grant requirements.

**Effect** – If IFSPs are not periodically reviewed, the children served may not be receiving appropriate services for their current developmental stages.

**Recommendation** - Design and implement procedures requiring an interdisciplinary team to review Individualized Family Service Plan with the parents at least every six months, and implement control activities to monitor that these procedures are being performed.

**View of Responsible Officials** – See corrective action plan.

## **2008-31 Management of Fixed Assets Purchased with Grant Funds**

### ***Equipment and Real Property Management – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** - Title I, Part A (84.010), Special Education Grants for Infants and Families (84.181), Title II, Part A (84.367)

**Criteria** – Federal program guidelines require that equipment purchased with grant money be maintained and used by the program for which it was acquired or, when appropriate, other federal programs.

**Condition** – Assets purchased with grant funds in previous years are not being used by the departments or programs for which they were purchased. The District performed a physical inventory of grant assets in 2008 and identified fully depreciated assets that were no longer being used by grant programs. However, those assets were not transferred out of the grant funds in accordance with grant requirements.

**Perspective/Instances** – 2 of 5 selected Title I assets, 1 of 1 selected Special Education Grants for Infants and Families assets, and 2 of 2 selected Title II assets were not being used by the programs for which they were purchased.

**Questioned Costs** – Not applicable

**Cause** – The District does not have the proper controls in place to track whether fixed assets are being used for grant purposes.

**Effect** – The District is not in compliance with Federal grant requirements. In addition, failure to properly track assets could result in misappropriation of assets or misuse of Federal funds.

**Recommendation** – Implement procedures to track assets purchased with grant funds to ensure they are being used by the program for which they were acquired. Any transfers of assets between grant funds should be properly documented. Also, obtain approval from granting agencies prior to transferring assets purchased with grant funds to other funds.

**View of Responsible Officials** – See corrective action plan.

## **2008-32 Eligibility of Adult Education Basic Grant Participants**

### ***Eligibility – Significant Deficiency – Controls over Grant Requirements***

**Programs** – Adult Education Basic Grant (84.002)

**Criteria** – Individuals enrolling in Adult Education Basic Grant programs must be at least 16 years old. Eligibility for participation in these programs should be monitored to ensure compliance with Federal grant requirements.

**Condition** – There is no process in place to obtain or verify identification information from program participants to ensure they meet the eligibility requirements.

**Perspective/Instances** – Not applicable.

**Questioned Costs** – Not applicable.

**Cause** – There are no control activities in place to monitor eligibility requirements for Adult Education Basic Grant programs.

**Effect** – Failure to confirm eligibility for program participation could result in ineligible participants enrolling in the program, which leads to the misuse of Federal funds.

**Recommendation** – Implement procedures to obtain proof of eligibility prior to enrolling participants in the program.

**View of Responsible Officials** – See corrective action plan.

## **2008-33 Loss of Supporting Documentation due to Fire**

### ***Eligibility, Cash Management – Significant Deficiency – Controls over Grant Requirements***

**Programs** – Adult Education Basic Grant (84.002), Texas Reading First (84.357), 21<sup>st</sup> Century Learning Centers (84.287)

**Criteria** – Adequate documentation should be maintained to support compliance with program requirements.

**Condition** – The District was unable provide documentation to support selected eligibility determinations and requests for reimbursement of grant funds due to a fire at the Lincoln Instructional Student Center in January 2008.

**Perspective/Instances** – Support for 4 requests for reimbursement and one student file selected for testing could not be provided.

**Questioned Costs** – Not applicable.

**Cause** – Backup documentation was not maintained.

**Effect** – Failure to maintain proper documentation could result in uncertainty surrounding compliance with program requirements.

**Recommendation** – Implement procedures to ensure that all supporting documentation is backed up and a disaster recovery plan is in place to recover any lost documentation.

**View of Responsible Officials** – See corrective action plan.

## **2008-34 Reimbursement Requests in Excess of the General Ledger**

### ***Cash Management – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** – Title I Part A (84.010), Special Education Cluster (84.027, 84.173)

**Criteria** – For programs funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested. In addition, program costs should include only those costs outlined in the grant application and approved by the granting agency.

**Condition** – The District requested reimbursement for expenditures in excess of the general ledger for Title I, Part A and IDEA B programs. This amount is not reflected as an expenditure in the schedule of expenditures of federal awards.

**Perspective/Instances** - \$13,506,283 of personnel salaries that were not previously approved by the granting agency or outlined in the grant applications were drawn down from the Texas Education Agency.

**Questioned Costs** –

Title I, Part A - \$9,223,780

Special Education Cluster - \$4,282,503

The District has set up a liability to pay the full amount back to the granting agency.

**Cause** – The District identified eligible costs subsequent to year end and did not obtain approval from granting agencies prior to requesting those funds.

**Effect** – The granting agency did not provide retroactive approval for these expenditures, and the District set up a liability to return the funds.

**Recommendation** – Review grant formulas to maximize grant funding at the beginning of the fiscal year.

**View of Responsible Officials** – See corrective action plan.

## **2008-35 - Procurement**

### ***Procurement, Suspension and Debarment – Significant Deficiency – Noncompliance with Grant Requirements***

**Program** – Title I, Part A (84.010), Title II, Part A (84.367), Special Education Cluster (84.027, 84.173)

**Criteria** - In accordance with OMB Circular A-133 compliance requirements and TEA competitive procurement guidelines, all contracts except contracts for the purchase of produce or vehicle fuel, valued at \$25,000 or more, must be procured using one of the following options:

- a) Competitive bidding
- b) Interlocal agreements
- c) Sole source
- d) Price Quotes
- e) Petty cash purchases

Competitive bidding requires at least 3 bids from vendors. Sole source purchases are exempt from competitive procurement; however, it is incumbent upon the District to retain documentation from the vendor which clearly delineates the reasons which qualify the purchase to be made on a sole source basis.

**Condition** – Failure to comply with federal procurement requirements was noted in the following instances:

- 1) *Title II, Part A (84.010)*: The District failed to advertise a Request for Qualifications to procure a contract for legal services.
- 2) *Title I, Part A (84.010)*: The District could not provide documentation of selected bid files, including evidence of proper procurement, suspension or debarment clearance.
- 3) *Title I, Part A (84.010), Special Education Cluster (84.027, 84.173)*: The District utilizes a state contract in which there are multiple approved vendors and the contract requires that the lowest bidding vendor be selected each time a purchase order is created. The District failed to obtain bids from each vendor prior to submitting a purchase order.

**Perspective/Instances** – 1 of 83 contracts selected for testing did not have evidence of a Request for Qualifications. 5 of 83 contracts selected for testing were missing a bid file and evidence of suspension or debarment clearance. 2 of 83 contracts selected were not properly procured in accordance with the terms of a state contract.

**Questioned Costs - Not applicable.**

**Cause –** The District failed to identify contracts that are subject to federal procurement laws. In addition, lack of communication between the purchasing department and user departments resulted in the failure to comply with the terms of procured contracts.

**Effect –** Failure to properly procure goods and services or circumventing the requirements of a procured contract can result in the purchase of goods and services for more than necessary or market prices. Additionally, failure to comply with federal procurement, suspension and debarment procedures places the District at risk that purchases from unapproved, related party, or suspended or debarred vendors can occur and go undetected.

**Recommendation -** Implement procedures to review all bid files related to contracts exceeding the "covered transaction" threshold of \$25,000 to ensure that all procurement, suspension and debarment requirements were followed prior to awarding the contract. Also develop and implement controls to ensure that buyers and user departments comply with all contract requirements.

**View of Responsible Officials –** See corrective action plan.

## **2008-36 Matching of Non-Federal Funds**

### ***Matching – Material Weakness–Material Noncompliance with Grant Requirements***

**Programs –** Adult Education Basic Grant (84.002)

**Criteria –** In accordance with grant requirements, no less than 25% of total funds spent on Adult Education Basic Grant programs should be spent from non-federal funds.

**Condition –** 20% of the District's Adult Education Basic Grant expenditures were spent from non-federal funds rather than the required 25%.

**Perspective/Instances –** Not applicable.

**Questioned Costs -** \$158,956

**Cause –** The District does not have controls in place to monitor compliance with matching requirements.

**Effect –** The District is not in compliance with federal requirements.

**Recommendation –** Implement procedures to monitor matching requirements of federal grant programs to ensure the proper amount of non-federal funds are spent.

**View of Responsible Officials –** See corrective action plan.

## **2008-37 Parental Involvement**

### ***Special Tests and Provisions – Material Weakness – Material Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010)

**Criteria** – In accordance with federal grant requirements, at least 1% of Title I, Part A funds must be reserved for parental involvement activities. Parental involvement programs and policies should be developed jointly with and distributed to parents of students attending Title I eligible schools. In addition, any funds expended for parental involvement activities should be in line with parental involvement guidelines set forth in the No Child Left Behind Act.

**Condition** – The District failed to develop written parental involvement policies for selected Title I eligible schools. In addition, documentation could not be provided to support whether parental involvement expenditures were in line with federal guidelines.

**Perspective** – One of 15 schools selected for testing did not have a parental involvement policy. In addition, 4 of 15 schools selected did not develop their policies in conjunction with parents.

In addition, the District could not provide documentation to support the appropriateness of 4 of 25 parental involvement expenditures selected for testing.

**Questioned Costs** - \$65,842

**Cause** – The District does not have controls in place to adequately monitor compliance with federal requirements.

**Effect** – The District is not in compliance with federal requirements.

**Recommendation** – Implement procedures to monitor compliance with federal parental involvement requirements. Provide training to staff at all levels regarding federal requirements and appropriate uses of federal funds.

**View of Responsible Officials** – See corrective action plan.

## **2008-38 Program Income**

### ***Program Income – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** – Special Education Grants for Infants and Families (84.181)

**Criteria** – Mechanisms should exist to ensure that all program income is properly recorded as earned.

**Condition** – The District could not provide documentation that claims billed to Medicaid for program income are properly reconciled to the general ledger or that revenue is properly recognized as earned. Currently, reviews of claims, deposits, and revenues are divided between the Special Education Grants for Infants and Families and the grants accounting departments and could not be reconciled to the final recorded amount in the general ledger.

**Perspective** – 2 of 9 Medicaid claims selected for testing could not be reconciled to revenues recorded in the general ledger.

**Questioned Costs** – Not applicable.

**Cause** – Poor communication between District departments and a lack of centralized control activities to ensure that claims billed reconcile to deposits received and the general ledger led to the inability to reconcile program income.

**Effect** – Failure to properly reconcile claims billed to deposits received and the general ledger could result in errors in the financial statements.

**Recommendation** - Implement procedures to reconcile claims billed to deposits received and the general ledger to ensure that revenues are properly recognized.

**View of Responsible Officials** – See corrective action plan.

#### **2008-39 Reconciliation of Reimbursement Requests in Grant Funds (Previously Reported as 2007-17)**

##### ***Cash management – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Special Education Cluster (84.027, 84.273), Texas Reading First (84.357), Adult Education Basic Grant (84.002), Teacher Incentive Fund (84.374), 21<sup>st</sup> Century Learning Centers (84.287), Special Education Grants for Infants and Families (84.181)

**Criteria** – In accordance with grant requirements, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

**Condition** – Prior to 2008, the District had not reconciled amounts requested with amounts received and disallowed costs in grant funds for the past several years. This resulted in a number of adjustments to correct amounts reconciled during fiscal year 2007. The District remitted all previously unreconciled liabilities back to granting agencies in fiscal year 2008. Beginning in April 2008, the District began reconciling amounts requested from granting agencies with amounts received. Prior to April, reconciliations were performed, but not in a timely manner.

**Perspective/Instances** – Not applicable.

**Questioned Costs** – Not applicable.

**Cause** – The District did not have processes in place to ensure monitoring of general ledger accounts and timely reconciliations of receivable and payable balances related to federal funds.

**Effect** – Failure to reconcile reimbursements requested to amounts received and amounts disallowed resulted in previously unrecorded liabilities due to federal agencies or unclaimed receivables.

**Recommendation** – Perform timely reconciliations of amounts requested from granting agencies, expenditures recorded, and amounts received, and research and resolve any differences in a timely manner. On a regular basis, review all general ledger accounts related to federal grant funds to identify whether any amounts are required to be remitted to federal or state agencies and settle up such accounts in a timely manner.

**View of Responsible Officials** – See corrective action plan.

## **2008-40 Tracking of Availability of Grants (Previously Reported as 2007-18)**

### ***Period of Availability of Federal Funds – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Special Education Cluster (84.027, 84.273), Texas Reading First (84.357), Adult Education Basic Grant (84.002), Teacher Incentive Fund (84.374), 21<sup>st</sup> Century Learning Centers (84.287), Special Education Grants for Infants and Families (84.181)

**Criteria** – Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, deobligated balances may be carried over and charged for obligations of the subsequent funding period.

**Condition** – For grant programs with greater than 12 months of availability, the District could not provide documentation that actual grant expenditures were reconciled with grant awards and any unused grant funds were carried forward to the subsequent year's grant application.

**Perspective/Instances** – Not applicable.

**Questioned Costs** – Not applicable.

**Cause** – The District has not prepared schedules or other mechanisms to track period of availability of rolling grant programs with carry-over funding.

**Effect** – As the District has not sufficiently tracked spending by year, it was difficult to determine whether the District has cumulatively over or under-spent funds. However, the District does not appear to have spent beyond its Notice of Grant Award amount in the current year for the major programs selected for testing.

**Recommendation** – In order to maximize the availability of grant funds, develop and implement procedures and methodologies for monitoring spending of funds by grant year to ensure that all potential funds are used prior to their expiration. Additionally, implement procedures to monitor timing of spending to ensure that deobligated funds are not used by the District in the grant programs.

**View of Responsible Officials** – See corrective action plan.

## **2008-41 Grants Management (Previously Reported as 2007-21)**

### ***Allowable Costs and Cost Principles – Material Weakness – Controls over Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), 21st Century Learning Centers (84.287), Adult Education Basic Grant (84.002), IDEA B (84.027, 84.173), Special Education Grants for Infants and Families (84.181)

**Criteria** – All grant expenditures should be reviewed by someone knowledgeable of the compliance requirements and allowable cost principles.

**Condition** – All grant expenditures were not required to be reviewed by people who are knowledgeable of the compliance requirements and allowable cost principles for the entire fiscal year.

**Perspective/Instances** – Not applicable.

**Questioned Costs** – Not applicable.

**Cause** – Prior to April 2008, the District did not have a process in place to review all grant expenditures to determine if they comply with grant requirements.

**Effect** – Grant funds may be misspent or mismanaged when proper reviews are not performed. The District is responsible for all funds received and may be liable for repayment of funds if they are determined to be spent improperly.

**Recommendation** – Implement control procedures that require all grant expenditures to be reviewed by someone knowledgeable of the compliance requirements and allowable cost principles consistently throughout the year.

**View of Responsible Officials** – See corrective action plan.

## **2008-42 Allocation of Internal Service Funds (Previously Reported as 2007-23)**

### ***Allowable Costs and Cost Principles – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** – Title I, Part A (84.010), Title II, Part A (84.367), Special Education Cluster (84.027, 84.173), Adult Education Basic Grant (84.002), 21<sup>st</sup> Century Learning Centers (84.287), Special Education Grants for Infants and Families (84.181), Texas Reading First (84.357)

**Criteria** - Rates for internal charges should be based on supportable actual costs to the District and reviewed annually to determine their reasonableness. Internal service fund-like transactions should be set up to break even and excess charges over actual expenses should be allocated back equitably to all the funds and organizations.

**Condition** - The District has set up a number of internal service funds that are consolidated with the General Fund for reporting purposes. These funds are used to allocate costs to all of the District's funds and organizations for the charges and services relate to graphics, workers' compensation, building

improvements force, and alternative certifications. The District currently charges the grants a flat rate per day for workers compensation and evaluation services provided by the District's internal departments. There was no current basis to support the rate charged by the District for such services.

Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District credits any excess of charges over actual expenditures back to the general fund. Grant funds were overcharged for workers' compensation expenses in fiscal year 2008.

**Perspective/Instances** – Not applicable

**Questioned Costs** – \$880,155, of which \$737,335 was reported in fiscal year 2007

**Effect** - Failure to charge grants based on actual or appropriate rates – or to allocate credits for overbillings – is an unallowable charge to grant funds and a questioned cost.

**Cause** – Prior to fiscal year 2008, the District had not reviewed the charges or rates made by internal services to determine reasonableness in several years. The District attempted to correct this issue in fiscal year 2008; however final analyses resulted in additional adjustments that should have been corrected.

**Recommendation** - Determine the actual costs for evaluation services and compare to the rate used by the District and charged to the grant programs. Determine whether adjustments to the rates are necessary and refund or make additional charges to the grants (if the grant budget allows) as required based on the rate review.

The periodic review of internal service funds and subsequent settle up of overcharge should be evaluated to include an allocation of any refunds or credits back to the original funds charged. Credit should not be given to a single fund when multiple funds originally paid for the services unless a supportable case can be made for refunding the overcharge in a disproportionate amount.

**View of Responsible Officials** – See corrective action plan.

**2008-43 Time and Effort Documentation - Supplemental Pay (Previously Reported as 2007-25)**

***Allowable Costs and Cost Principles – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21<sup>st</sup> Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027, 84.173), Special Education Grants for Infants and Families (84.181), Adult Education Basic Grant (84.002)

**Criteria** - OMB Circular A-87 Attachment B #8h requires that "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the following standards: (a) They must reflect an after the fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee..."

**Condition** - Supplemental pay for persons whose base salary is non-grant-funded is not properly supported by signed time and effort documentation. The District was able to provide alternative documentation to support selected supplemental pay items.

**Perspective/Instances** - All supplemental pay charged to the grants where the respective employees' base salary was funded by the general fund or other grant funds.

**Questioned Costs** - Not applicable.

**Cause** - District policy requires only employees with base salary paid from grant funds to complete time and effort certifications.

**Effect** - The District's policy does not comply with federal guidelines.

**Recommendation** - Revise the District policy to require all employees who have a portion of their pay charged to a grant (base or supplemental) to complete time and effort certifications in a timely manner.

**View of Responsible Officials** – See corrective action plan.

#### **2008-44 Suspension and Debarment Noncompliance (Previously Reported as 2007-27)**

##### ***Procurement, Suspension and Debarment – Significant Deficiency – Noncompliance with Grant Requirements***

**Programs** - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21<sup>st</sup> Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027 and 84.173)

**Criteria** - In accordance with the OMB A-133 Compliance Supplement Suspension and Debarment compliance requirement, all vendors - for goods and services - should be reviewed to determine if they are suspended or debarred.

**Condition** – The District failed to check vendors selected for testing for federal suspension or debarment with the National Excluded Parties database.

**Perspective/Instances** – 22 of 83 procurement files selected for testing lacked evidence that the vendors were checked for suspension or debarment.

**Questioned Costs** - Not applicable.

**Cause** - The District routinely enters into contracts with vendors through state and local purchasing cooperatives. The District's policies do not require vendors utilized through these contracts to be checked for suspension or debarment.

**Effect** - The District could unknowingly be doing business with unapproved vendors as a result of the failure to fully implement the proper policies and procedures necessary to comply with federal regulations.

**Recommendation** - Implement control procedures to ensure that all vendors are checked to ensure that they are not suspended or debarred. Check the National Excluded Parties Database for all covered parties

prior to entering into contracts with any vendors. Vendor status should be updated on a regular basis and the status should be verified against the National Excluded Parties Database each time a contract is renewed or carried forward.

**View of Responsible Officials** – See corrective action plan.

#### **2008-45 Per-Pupil Allocation for Private School Children (Previously Reported as 2007-28)**

##### ***Special Tests and Provisions – Significant Deficiency – Noncompliance with Grant Requirements***

**Program** - Title I, Part A (84.010)

**Criteria** - TEA calculates an amount to be allocated to each student eligible to receive Title I, Part A funds within the District. The same amount should be allocated to private school children at participating private schools.

**Condition** - The District applied an internally-calculated per-pupil allocation rate for private school students receiving Title I, Part A funds instead of the TEA-approved rate.

**Perspective/Instances** - The per-pupil allocation rate used by the District in fiscal year 2008 was \$1,081 lower per student than the TEA-approved rate, which resulted in a total of \$1,442,684 that was not allocated to private school students.

**Questioned Costs** - Not applicable.

**Cause** - Grant managers failed to review the TEA guidelines for per-pupil allocation rate applications and performed a spreadsheet calculation.

**Effect** - Title I, Part A funds allocated to private schools were \$1,442,684 below TEA required allocations. However, this noncompliance would not have had any impact on the amounts disbursed by the District since private schools did not spend the funds allocated to them by the District during fiscal year 2008.

**Recommendation** - Review per-pupil allocation rates for Title I, Part A funds to ensure the rate used is the TEA-approved rate. Assign responsibility for monitoring funds reserved for and used by private schools participating in the Title I, Part A program.

**View of Responsible Officials** – See corrective action plan.

#### **2008-46 Allowable Costs in Title I, Part A (Previously Reported as 2007-34)**

##### ***Allowable Costs and Cost Principles – Noncompliance with Grant Requirements***

**Program** - Title I, Part A (84.010)

**Criteria** - Only allowable costs per the grant agreement should be charged to the grant program.

**Condition** – The Department of Education Office of Inspector General conducted an audit of the Title I grant for the fiscal year ended June 30, 2006 and identified certain questioned costs. A final report has not been issued but a preliminary draft has been presented to the District with a list of items that have been questioned.

**Perspective/Instances** – The amount identified by the OIG as questioned costs in the draft dated June 5, 2008, net of amounts approved by the Texas Education Agency or otherwise questioned was \$3,753,263.

**Questioned Costs** - \$3,753,263 (reported in 2007)

**Cause** – Lack of proper supporting documentation

**Effect** - The District may be liable up to the amount of the questioned costs.

**Recommendation** – Follow up with the Department of Education and resolve outstanding issues.

**View of Responsible Officials** – See corrective action plan.

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**DALLAS INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2008**

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Management acknowledges the findings noted in the schedule of findings and questioned costs. For findings with questioned costs related to missing documentation, management is continuing to compile alternative documentation to support these costs. The findings identified in the reports result from issues in several departments and as a result in the summer of 2008, the District has embarked on a corrective action plan to address these issues. The following is an outline of these corrective actions in each of the departments and the respective responsible official.

- Grants Management Department – Emily Ray, Director
  - The department has been divided into three clearly defined areas, accounting, acquisition, and compliance. Each area has clearly defined responsibilities and defined leadership. The director of the department, the compliance manager and the acquisition manager have been newly appointed and are working closely with existing personnel to establish new procedures to ensure efficient and correct operation of the department.
  - The District engaged a consulting firm to assist in developing a department charter, job descriptions, internal controls and a compliance calendar.
  - Eight compliance specialist positions were established and the District is in the process of filling those positions. The increased personnel will enable the grants department to maintain close oversight of all grant expenditures and activities. This will ensure that grant expenditures and activities are in line with guidelines and application intentions.
  - Formal departmental policies are being developed to address all findings and material weaknesses including:
    - Appropriate time and effort certifications
    - Costs charged to central organizations
    - Appropriate non-payroll documentation
    - Maintenance of effort monitoring
    - Management of fixed assets purchased with federal funds
    - Monitoring of matching requirements of federal funds
    - Review of District Improvement Plans and Campus Improvement Plans for alignment with district and campus needs assessment
    - Monitoring of parental involvement activities where appropriate.
    - Tracking of availability of grants
    - Review and correction of the per pupil allocation for private school children.
  - The department is working closely with all grant managers to develop compliance plans for all grants including the following:
    - Early Childhood Intervention
    - Adult Basic Education
    - Teacher Incentive Fund
    - Special Education

- Title I
  - Title II
  - Title III
  - Texas Reading First
  - 21<sup>st</sup> Century
- The department is providing additional support and training for District staff through the use of consultants with extensive school business experience, TEA assigned monitors, CPAs with extensive accounting experience and other specialized consultants.
- Human Development Department – Kim Olson, Chief Human Development Officer
  - With the aide of the legal department, Human Development will review the District's employment contracts for inclusion of key terms.
  - The department will work with IT to establish effective controls and approvals over electronic documents and employee file changes.
  - Controls over employee file tracking will be developed and implemented by June 2009.
  - The department will create a Records Quality Control position to ensure that employee files are complete.
  - Appropriate policies and procedures will be developed to ensure that exceptions to the compensation plan are properly documented and approved.
- Budget Department – Carolyn Jones, Interim Budget Director
  - The department is under new leadership and will be developing policies and procedures to ensure the reliability of budgeted figures including the development of appropriate basis for the original budget and the performance of periodic reviews of all budget to actual variances.
  - The department has implemented new procedures to strengthen the system controls for overrides and is evaluating a new IT solution for budgeting and position control.
- Purchasing – Phil Jimerson, Chief Operating Officer
  - The department is under new leadership and will be developing policies and procedures to strengthen the procurement controls.
  - During the fall of 2008, the department hired a consulting firm to review its current procedures. Management will develop an implementation strategy for the recommendations that came from this review.
- Financial Services – Steven Korby, Executive Director
  - The department is under new leadership and will be developing policies and procedures to strengthen internal controls and monthly financial reporting.
  - Management is reviewing the organizational structure and personnel needs for this department and is working closely with other departments to implement the fiscal transformation plan for the District.

- Information Technology – Patricia Viramontes, Executive Director
  - The department will be developing policies and procedures to strengthen internal controls over the information technology system.
  - Management is reviewing the organizational structure and personnel needs for this department and is working closely with other departments to implement the fiscal transformation plan for the District.
- Internal Audit - Allen Wesson
  - The department is working closely with other departments to implement the fiscal transformation plan for the District.
  - The department is in the process of completing a fraud risk assessment for the District and before completion of the annual internal audit plan, the department will complete an enterprise risk assessment.

Management will complete a comprehensive corrective action strategy after completion of the above departmental reviews.

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**DALLAS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2008**

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**Finding 2007-01 – Control Environment**

**Observation** — The District has not developed a sound internal control environment that is supported by effective policies and procedures for each of its key business processes. Current policies and procedures around payroll, disbursements, fixed assets, inventory, and revenues are inadequately documented and inconsistently applied and communicated to employees. In several instances, no evidence was available to support the performance of a control. The District has not developed a program to train employees on the importance of maintaining controls and taking action when controls fail or imposing discipline when controls are circumvented.

A control environment that is not supported by thoroughly documented and consistently enforced policies and procedures exposes the District to the potential for fraud, waste, and abuse and increases the risk that errors and irregularities occur and do not get detected on a timely basis by employees in their normal course of business.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve internal controls and has taken steps to address timely reconciliation of accounts and accounting errors. Please see corrective action plan.

**Finding 2007-02 – Financial Accounting and Reporting**

**Observation** — Financial accounting and reporting in a large organization such as the District is complex and requires not only an understanding of the internal processes of the District, but also a strong accounting knowledge and ability to analyze transactions and determine their impact on financial statements. Several errors were noted during the audit that resulted in material adjustments to current-year financial statements; a number of these errors related to accounting and reporting errors in the prior year which resulted in prior-year adjustments to the opening fund balance and net assets. During the audit process, we noted weaknesses in the general condition of the accounting records relating to many areas, including the following:

18. Staff had difficulty explaining changes in account balances and explaining relationships between changes in operations and related financial accounts.
19. Accounts receivable and payable detail ledgers were not reconciled to the general ledger and several outstanding receivables and payables were not analyzed to determine whether they are valid accounts.
20. The allowance for doubtful accounts related to property taxes receivable was not evaluated to determine the adequacy of the allowance in relation to recent history of collections and adjustments.
21. A number of suspense and inventory accounts improperly carried unresolved balances from prior years.
22. Accrued salaries and wages were understated due to programming errors that resulted in the exclusion of certain employee contracts from the accruals and erroneous management assumptions made about the immateriality of such amounts without proper analysis to determine whether such amounts were significant to the financial statements. Additionally, the related payroll benefits were not properly accrued.

23. Contributions made by third parties for the construction and improvements to the Booker T. Washington campus and for the enhancement of the District's programs had not been analyzed for the proper recording of the related receivables and recognition of revenues.
24. Transactions with other governments were not analyzed to determine the proper recording in the general ledger.
25. Numerous errors were noted related to accounts payable cut-off, including utilities, construction contracts, and other cash disbursement.
26. Nonroutine transactions were not identified and evaluated for proper recording.

All of the above resulted in numerous errors in the financial statements requiring the District to record numerous prior-period adjustments in addition to adjusting entries to correct current-year financial statements. This has also resulted in substantial delays in closing the books and preparing final financial statements and created significant delays in the reporting timeline.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve financial reporting. Please see corrective action plan.

#### **Finding 2007-03 – Policies and Procedures**

Formalized and up-to-date policies and procedures for the District's key business processes either do not exist, are ineffective, or are inconsistently applied in many key business processes within the District. We noted a number of instances where control activities could not be identified and others where supporting documentation evidencing the control was not complete or did not exist so we could not determine whether these controls were operating effectively.

While this is a repeat finding in the current year single audit report, Management has made significant improvements in account reconciliations, and has begun a comprehensive program to improve policies and procedures. Please see corrective action plan.

#### **Finding 2007-04 – Anti-fraud Programs and Controls**

**Observation** — While the District has established an internal audit department, the Office of Professional Responsibility, and an Audit Committee in recognition of the importance of maintaining fraud prevention and detection programs, the District currently does not have a documented fraud risk assessment process in place.

This is a repeat finding in the current year single audit report. The District's Internal Audit department is proceeding with its fraud risk assessment during fiscal year 2009. Please see corrective action plan.

#### **Finding 2007-05 – Capital Assets Reporting**

**Observation** — A number of errors were noted in the capital assets balances that required material adjustments to beginning balances and current additions. These errors resulted from a lack of a detailed review and reconciliation process, weaknesses in communication among District departments with regards to capital asset transactions and transfers out of construction in progress, and the absence of the timely reconciliation of additions to capital outlay expenditures.

While this is a repeat finding in the current year, Management has made significant improvement in account reconciliations and has begun a comprehensive program to improve controls over capital assets. Please see corrective action plan.

#### **Finding 2007-06 – Debt Accounting and Reporting**

**Observation** — Several accounting errors were noted during the audit of the District's debt transactions.

While this is a repeat finding in the current year, Management has made significant improvements in this area and has begun a comprehensive program to document policies and procedures over debt accounting and reporting.. Please see corrective action plan.

#### **Finding 2007-07 – Grant Compliance, Accounting, and Reporting**

**Observation** — The District does not have formal, Districtwide procedures in place to monitor compliance with grant regulations on the front-end of each transaction. In addition, program management for several grant programs has not been consistent due to employee turnover.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve internal controls over grant compliance, accounting and reporting. Please see corrective action plan.

#### **Finding 2007-08 – User Access Management and Security**

**Observation** — Security configurations and the access management processes for IT systems were found to be weak which could impact the integrity and confidentiality of data processed by the financial systems. The District should enhance its access management processes and security configurations to address each of the identified weaknesses above. IT system policies and procedures for these areas should be documented and communicated to employees and appropriate monitoring controls should be established to ensure they are being consistently followed by the administrators and users of the IT systems.

This is a repeat finding in the current year single audit report. Management has begun a comprehensive program to improve IT controls. Please see corrective action plan.

#### **Finding 2007-09 – Controls Over Master Files**

**Observation** — The District has not implemented adequate master file controls to appropriately manage the vendor, payroll, food service inventory, and fixed assets master files. These master files contain critical data that supports the operations of various business processes of the District. Data from these master files is used as the basis for transaction processing that is ultimately reported in the financial statements.

While this is a repeat finding in the current year single audit report, Management has implemented a corrective action plan related to vendor master file controls in April 2008 and has begun a comprehensive program to improve all IT controls. Please see corrective action plan.

#### **Finding 2007-10 – Change Management Processes**

**Observation** — The District has not implemented a formal process for change management for the IT systems and the documentation of testing and approval of changes is not being maintained. Additionally, separate test, development, and production environments are not maintained for financial systems.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve IT controls. Please see corrective action plan.

#### **Finding 2007-11 – Disaster Recovery and Business Continuity**

**Observation** — The existing Disaster Recovery process for financial data was found to be ineffective. The off-site storage of data backups and disaster recovery testing have not been properly implemented.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve IT controls. Please see corrective action plan.

#### **Finding 2007-12 – Allocation of Internal Service Activities**

**Observation** — The District has set up a number of internal service funds that are consolidated with the General Fund for reporting purposes. These funds are used to allocate costs to all of the District's funds and organizations for the charges and services relate to evaluation and accountability, graphics, workers' compensation, building improvements force, and alternative certifications. Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District is crediting any excess of charges over actual expenditures back to the general fund. Allocation to other funds made from the general fund should be set up to break even and excess charges over actual expenses should be allocated back equitably to all the funds and organizations.

Failure to charge grants based on actual or appropriate rates and allocation of expenditures to grant funds in excess of actual cost is considered an unallowable charge to grant funds.

While this is a repeat finding in the current year single audit report, in fiscal year 2009, workers compensation and program evaluation have completed rate analyses and will be accounted for as separate internal service funds. In January 2009, Management will schedule a meeting with the Texas Education Agency to address resolution of questioned costs identified in the 2007 and 2008 audits. Please see corrective action plan.

#### **Finding 2007-13 – Employment of Unauthorized Alien**

**Observation** – *Title 8, Chapter 12, subchapter II, part VIII*, Section 1324 a of the U.S. Code states that it is unlawful for a person or other entity to hire or to recruit or to refer for a fee for employment in the United States an alien knowing that the alien is an unauthorized alien. A test of the District's active employees revealed that the District employed and paid one unauthorized alien during fiscal year 2007. The employee was using a deceased person's social security number.

The District has begun verification of all social security numbers upon hiring.

#### **Finding 2007-14 – Monitoring of State Mandated Programs**

**Observation** – As defined in the Texas Education Agency Resource Guide, "for programs financed under the Foundation School Program Act (state mandated programs), rules of the State Board of Education

provide that allocations must be used in the program areas prescribed by law, except for percentages as indicated below.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management and mandated spending levels. See corrective action plan.

#### **Finding 2007-15 – Conflict of Interest Statements**

**Observation** – The District currently obtains conflict of interest statements from Board members; however, when conflict of interest statements are received from District employees, they are filed in the respective employee's personnel file and records are not consistently maintained in the purchasing or legal departments. Such departments should be informed of conflicts when entering into agreements on behalf of the District and, therefore, need to be apprised of any such conflicts in a timely manner.

The District has implemented policies to ensure appropriate communication of conflicts of interest.

#### **Finding 2007-16 – Budgetary Noncompliance**

**Observation** – District management misinterpreted the State law that requires that the Board of Trustees approve the final amended budget prior to the completion of the fiscal year. The District's Board of Trustee approved the final amendment for the fiscal year 2007 budget in June of 2007 which included the following statement:

The District has implemented policies to ensure compliance with State budgetary laws for fiscal year 2009.

#### **Finding 2007-17 – Reconciliation of Reimbursement Requests in Grant Funds**

**Condition** – The District has not reconciled amounts requested with amounts received and disallowed costs in grant funds for the past several years.

In April 2008, the District began the practice of timely reconciliation of reimbursement requests and general ledger expenses. Revenue is being reconciled to the grant payment schedules to insure correct postings of receipts and any necessary adjustments are made on a timely basis.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-18 – Tracking of Availability of Grants**

**Condition** – Funds that are carried over to the following year are not tracked to determine whether or not authorized awards are overspent.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-19 – Insufficient Documentation of Payroll and Payroll-Related Costs**

**Condition** - The District was unable to provide supporting documentation that the salary paid to selected employees was accurate and approved by management or based on the Board-approved salary manual. Additionally, in certain instances, the District overcharged the grant for payroll and payroll-related expenditures due to incorrect hourly rates charged to the grant, improper allocation of salaries and related charges, or insufficient documentation.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-20 – Time and Effort Documentation**

**Condition** – Certifications of time and effort were not obtained at least semi-annually in accordance with federal requirements.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-21 – Grants Management**

**Condition** – All grant expenditures are not required to be reviewed by people who are knowledgeable of the compliance requirements and allowable cost principles.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-22 – Costs Charged to Central Organization Codes**

**Condition** - All expenditures in the 21<sup>st</sup> Century Learning Centers program and a large portion of the expenditures for Texas Reading First and Title I, Part A programs were charged to central organization codes on the general ledger. Allowability of costs is partially dependent on campus eligibility as a designated campus. Use of central organization codes for charges that are non-administrative in nature does not allow the District to demonstrate that funds were spent on eligible campuses only without going to the original supporting documentation.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management and developing a process to eliminate central organizations. See corrective action plan.

#### **Finding 2007-23 – Allocation of Internal Service Funds**

**Condition** - The District has set up a number of internal service funds that are consolidated with the General Fund for reporting purposes. These funds are used to allocate costs to all of the District's funds and organizations for the charges and services relate to evaluation and accountability, graphics, workers' compensation, building improvements force, and alternative certifications. The District currently charges the grants a flat rate per day for workers compensation and evaluation services provided by the District's internal departments. There was no current basis to support the rate charged by the District for such services.

Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District credits any excess of charges over actual expenditures back to the general fund.

While this is a repeat finding in the current year single audit report, in fiscal year 2009, workers compensation and program evaluation have completed rate analyses and will be accounted for as separate internal service funds. In January 2009, Management will schedule a meeting with the Texas Education Agency to address resolution of questioned costs identified in the 2007 and 2008 audits. Please see corrective action plan.

#### **Finding 2007-24– Charges for Employee Benefits**

**Condition** - The District's system program which is used to calculate benefits for employees whose salaries are allocated to federal funds was found to contain a programming error.

IT implemented a programming change that corrected this finding.

#### **Finding 2007-25 – Time and Effort Documentation (Supplemental Pay)**

**Condition** - Supplemental pay for persons whose base salary is non-grant-funded is not properly supported by signed time and effort documentation.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management. See corrective action plan.

#### **Finding 2007-26 – Insufficient Documentation for Non-Payroll Expenditures**

**Condition** - The District was unable to provide adequate documentation to support grant expenditures related to non payroll expenditures.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over payroll and human development . See corrective action plan.

#### **Finding 2007-27 –Suspension and Debarment Noncompliance**

**Condition** - The District has not examined certain professional service contracts under \$25,000 for suspension and debarment compliance. Additionally, several others vendors selected for testing were not checked by the District's management for federal suspension or debarment with the National Excluded Parties database.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management and purchasing. See corrective action plan.

#### **Finding 2007-28 Per-Pupil Allocation for Private School Children**

**Condition** - The District applied an internally-calculated per-pupil allocation rate for private school students receiving Title I, Part A funds instead of the TEA-approved rate.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management and for fiscal year 2009, the District has corrected the per pupil allocation rate private schools. See corrective action plan.

#### **Finding 2007-29 – Capital Asset Inventory**

**Condition** - The District's capital asset verification process consists of sending inventory lists to departments and campuses and asking them to verify the existing of such assets not less than every two years.

An inventory of federal funds capital assets was completed in June 2008 and will be performed on an annual basis.

#### **Finding 2007-30 – Special Education Reporting**

**Condition** – The report provided to us by the District does not match the report prepared by TEA located on TEA's website. The District does not appear to be in compliance with this requirement.

Finding was corrected through training and documentation.

#### **Finding 2007-31 – Procurement of Services (non-sole-source)**

**Condition** - The District failed to obtain competitive bids for a non-sole-source supplies contract, resulting in noncompliance with federal procurement, suspension and debarment requirements as set forth in OMB Circular A-133.

While this is a repeat finding in the current year single audit report, Management has begun a comprehensive program to improve controls over grants management and purchasing. See corrective action plan.

#### **Finding 2007-32 – Participation of Private School Children**

**Condition** - Actual expenditures related to private school participation were less than amounts budgeted for private schools in fiscal year 2007.

Finding was corrected through increased communication with the private schools.

#### **Finding 2007-33 – Allowable Costs in Title I, Part A – Wilmer Hutchins ISD**

**Condition** - Certain expenditures were not allowed under the provisions of the grant award.

The District no longer has this grant.

#### **Finding 2007-34 – Allowable Costs in Title I, Part A**

**Condition** – The Department of Education Office of Inspector General conducted an audit of the Title I grant for the fiscal year ended June 30, 2006 and identified certain questioned costs. A final report has not been issued but a preliminary draft has been presented to the District with a list of item that have been questioned.

The Office of Inspector General still has not issued this report. The District has established reserves for this potential liability and has compiled documentation to support many of the OIG's questioned costs.

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