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**HOUSTON INDEPENDENT  
SCHOOL DISTRICT**

**An Internal Audit of:**

**ELEMENTARY AND SECONDARY  
SCHOOL EMERGENCY RELIEF (ESSER)  
II AND III FUNDS**

**May 7, 2024**

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*CPAs and Professional Consultants*

May 7, 2024

Ms. Teresa Corrigan, Sr. Executive Director/  
Ethics and Compliance  
Houston Independent School District  
4400 West 18th Street  
Houston, TX 77092

We have completed the Elementary and Secondary School Emergency Relief (ESSER) II and III Funds audit for Houston Independent School District (the "District") for expenditures for the year ended June 30, 2022. We assessed whether the District has internal controls to ensure compliance with applicable laws, policies and procedures. We have identified opportunities for improvement and recommendations to address internal control issues noted or enhance existing processes. These are identified in this audit report.

The procedures were performed based on guidelines provided by management and in accordance with standards for consulting services issued by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit, in which the objective would be the expression of an opinion. Accordingly, we do not express such an opinion.

This report is intended solely for the use of management and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. The following report summarizes the procedures performed, observations and findings. Please contact Celina Cereceres at 713-386-1175 should you have any questions about this audit report.

Sincerely,



Whitley Penn, LLP  
Houston, TX

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# HOUSTON INDEPENDENT SCHOOL DISTRICT

## ELEMENTARY AND SECONDARY SCHOOL

### EMERGENCY RELIEF II and III AUDIT

#### EXECUTIVE SUMMARY

##### BACKGROUND

The Elementary and Secondary School Emergency Relief (ESSER) II grant program was authorized through Section 313 of Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act on December 27, 2020. Subsequently, a third tranche of ESSER funds (ESSER III) grant program was authorized through Section 313 of American Rescue Plan (ARP) Act on March 11, 2021. The purposes of each tranche, the allocation amount, and program end date are shown below:

Program	Statutory Intent	Allocation	Per End Date
ESSER II	To add additional stimulus funding to be available to Local Educational Agencies (LEAs) to prevent, prepare for, and respond to the coronavirus.	\$358,195,503	September 30, 2023
ESSER III	To provide wrap-around services in light of the challenges of COVID-19; and assistance needed to enable homeless children and youth to attend school and participate fully in school activities.	\$804,716,108	September 30, 2024

Unlike ESSER I, ESSER III funds are considered supplemental in that none of the funds were used by the State of Texas to supplant (i.e. replace) State Aid funding. However, the Texas Education Agency (TEA) supplanted \$65,873,097 of the District's State Aid to hold it harmless for low average daily attendance.

The allowable activities under each of the two programs are as follows:

ESSER II	ESSER III
LEA discretion for any activity authorized under the following federal laws: <ul style="list-style-type: none"><li>• Elementary and Secondary Education Act (ESEA)</li><li>• Individuals with Disabilities Education Act (IDEA)</li><li>• Adult Education and Family Literacy Act (AEFLA)</li><li>• Carl D. Perkins Career and Technical Education Act</li><li>• McKinney-Vento Homeless Education Act</li></ul>	LEA discretion for any activity authorized under the following federal laws: <ul style="list-style-type: none"><li>• Elementary and Secondary Education Act (ESEA)</li><li>• Individuals with Disabilities Education Act (IDEA)</li><li>• Adult Education and Family Literacy Act (AEFLA)</li><li>• Carl D. Perkins Career and Technical Education Act</li><li>• McKinney-Vento Homeless Education Act</li></ul>
Coordination of preparedness and response efforts of LEA with State and local public health departments, and other relevant agencies, to improve coordinated responses among such entities to prevent, prepare for, and respond to coronavirus	Coordination of preparedness and response efforts of LEA with State and local public health departments, and other relevant agencies, to improve coordinated responses among such entities to prevent, prepare for, and respond to coronavirus
Activities to address the unique needs of low-income students, students with disabilities (SWD), English learners, racial and ethnic minorities, students experiencing homelessness, and foster care youth, including how outreach and service delivery will meet the needs of each population	Activities to address the unique needs of low-income students, students with disabilities (SWD), English learners, racial and ethnic minorities, students experiencing homelessness, and foster care youth, including how outreach and service delivery will meet the needs of each population

**HOUSTON INDEPENDENT SCHOOL DISTRICT**

**ELEMENTARY AND SECONDARY SCHOOL**

**EMERGENCY RELIEF II and III AUDIT (continued)**

**BACKGROUND (continued)**

ESSER II	ESSER III
Developing and implementing procedures and systems to improve the preparedness and response efforts of LEA	Developing and implementing procedures and systems to improve the preparedness and response efforts of LEA
Training and professional development for staff of the LEA on sanitation and minimizing the spread of infectious diseases	Training and professional development for staff of the LEA on sanitation and minimizing the spread of infectious diseases
Purchasing supplies to sanitize and clean the facilities of the LEA, including buildings operated by the LEA	Purchasing supplies to sanitize and clean the facilities of the LEA, including buildings operated by the LEA
Not Applicable	Planning for, coordinating, and implementing activities during long-term closures, including providing meals to eligible students
Not Applicable	Planning for, coordinating, and implementing activities during long-term closures, including providing technology for online learning to all students
Not Applicable	Planning for, coordinating, and implementing activities during long-term closures—how to provide guidance for carrying out requirements under IDEA
Not Applicable	Planning for, coordinating, and implementing activities during long-term closures, ... how to ensure other educational services can continue to be provided consistent with all Federal, State, and local requirements
Not Applicable	Purchasing educational technology (hardware, software, and connectivity) for students ... that aids in regular/substantive educational interaction between students and instructors, including low-income students and SWD, which may include assistive technology or adaptive equipment
Not Applicable	Providing mental health services and supports, including through implementation of evidence based full-service community schools
Not Applicable	Planning and implementing activities related to summer learning -- providing classroom instruction or online learning during summer months and addressing the needs of low-income students, SWD, English learners, migrant students, students experiencing homelessness, & children in foster care
Not Applicable	Planning and implementing activities related to supplemental afterschool programs -- providing classroom instruction or online learning ... addressing the needs of low-income students, SWD, English learners, migrant students, students experiencing homelessness, & children in foster care

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT OBJECTIVES**

The objectives for this audit were to determine if:

- ESSER funds were allocated in accordance with ESSER requirements
- ESSER funds were spent as intended
- ESSER fund expenditures achieved the District’s stated goals and expected outcomes, if applicable

**AUDIT SCOPE AND APPROACH**

To accomplish the audit objectives, we completed the following steps:

- Reviewed the District’s State and Federal Grants Management Manual for 2021-2022
- Reviewed the District’s 2022 Compensation Manual and 2022 Compensation Tables
- Documented the internal controls over the ESSER II and III expenditures.
- Reviewed the ESSER Office of Management and Budget’s (OMB) 2022 Compliance Supplement, the ESSER Application, and TEA Frequently Asked Questions
- Reviewed the general ledger detail for fiscal year 2022 (July 1, 2021 through June 30, 2022)
- Used TeamMate Analytics (TMA) to assist us in identifying riskier transactions
- Selected a sample of payroll and non-payroll expenditures and recalculated the pay amounts, evaluated allowability, and tested internal controls

Below is a summary of ESSER II and III allocations received by the District and expenditures incurred.

	ESSER II	ESSER III
Allocation Amount	\$358,195,503	\$804,716,108
Expenditures in Fiscal Year 2022	(199,972,867)	(172,669,837)
<b>Remaining Allocation as of June 30, 2022</b>	<b>\$158,222,636</b>	<b>\$787,449,271</b>

The District had until September 30, 2023 for ESSER II and September 30, 2024 for ESSER III to spend any remaining funds. The remaining allocation for ESSER II and the ESSER III totaled \$158,222,636 and \$787,449,271, respectively. Although fiscal year 2023 was not in the scope of this audit, the fiscal year 2023 audited financial statements completed in November 2023 show that \$154.6 million and \$284.5 million was spent on ESSER II and III, respectively. As a reminder, we agreed with the District that we would only audit expenditures after the fiscal year was closed and the accounting records were finalized. School districts across the State of Texas are continuously brainstorming on the use of their ESSER funds prior to the deadlines provided by the Texas Education Agency. As such, the fiscal year 2023 expenditures would be audited in the Spring of 2024.

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Our next step was to determine which of the 12 compliance requirements per Appendix IX of 2 CFR 200 were subject to audit and direct and material as shown below.

Compliance Requirement	Applicable and Direct and Material
Allowable Activities	Yes
Allowable Costs/Cost Principles	Yes
Cash Management	Yes
Eligibility	Not Applicable
Equipment and Property Management	Yes
Matching, Level of Effort and Earmarking	Yes
Period of Performance	Yes
Procurement and Suspension and Debarment	Yes
Program Income	Not Applicable
Reporting	Yes
Subrecipient Monitoring	Not Applicable
Special Tests and Provisions	Yes

It important to note that auditors engaged to audit the financial statements and perform a federal single audit are only required to test six (6) of the 12 compliance requirements per the [2023 OMB Compliance Supplement for Assistance Listing 84.425 \(see page 226 of 275 of Part 4\)](#). The instructions for auditors indicate that when a compliance requirement is marked with an “N”, auditors are not expected to test those requirements. The illustration below comes directly from the 2023 OMB Compliance Supplement.

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement and Suspension and Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	N	N	N	Y	Y	Y

All revenue and expenditures transactions were sampled from fiscal year 2022. The population of nonpayroll transactions for ESSER II totaled \$58,784,236, while ESSER III totaled \$71,692,874. The payroll populations for ESSER II and III were \$117,736,546 and \$82,889,718, respectively. The District also recouped \$23.5 million and \$18.1 million in indirect costs for ESSER II and III, respectively. The period of performance for ESSER II is from March 13, 2020 through September 30, 2023. The ESSER III period of performance is from March 13, 2020 through September 30, 2024. We also followed the guidelines for obligating a grant provided by the U.S. Department of Education Cross Cutting Section of the 2023 Compliance Supplement.

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Compliance Required Satisfied	Transactions Tested
<p><b>Allowable Activities; Allowable Costs/Cost Principles and Period of Availability- Nonpayroll</b></p> <p>The District’s expenditures are spent in accordance with the ESSER II and III application.</p>	<p><b>Transactions Tested:</b> We tested a total of 75 nonpayroll transactions, where 60 transactions were based on random sampling and 15 items were based on risky transactions identified by TeamMate Analytics (TMA).</p> <p><b>Summary of Procedures:</b> We verified that each expenditure was for an allowable activity and followed the cost principles under 2 CFR 200. We also ensured that the expenditure represented an obligation during the period of performance. We tested that the expenditure was reviewed by the appropriate personnel. We reviewed the reviewed the invoice support, approved purchase order, copy of canceled check, receiving documents and any other supporting documentation.</p> <p><b>Results:</b> Of the 75 transactions tested, there were three (3) ESSER II transactions that did not reflect the proper approval by the appropriate personnel. The District indicated that the accounting system may not have been updated at the time to list “external funding” as an approver. The three transactions were dated October 27, 2021, and October 8, 2021 and were related to Miscellaneous Contract Services. <b>See Observations and Recommendations.</b></p>
<p><b>Allowable Activities; Allowable Costs/Cost Principles and Period of Availability – Payroll</b></p> <p>The District’s payroll expenditures are allowable costs under 2 CFR 200 Subpart E and were charged during the period of performance for both ESSER II and III.</p>	<p><b>Transactions Tested:</b> We tested a total of 75 payroll transactions, where 60 transactions were based on random sampling and 15 items were based on risky transactions identified by TMA.</p> <p><b>Summary of Procedures:</b> We first selected a single check for the employee but then recalculated the employee’s annual pay based on years of service, compensation table and other personnel file items. We ensured each employee was approved by the appropriate personnel and assigned position in position control; we verified that the expenditure was allowable and complied with the cost principles under 2 CFR 200. We also verified that the expenditure represented in an obligation during the period of performance.</p> <p><b>Results:</b> No exceptions.</p>
<p><b>Cash Management and Reporting</b>  – The District must have actual expenditures to support the drawdown requests that are submitted through the TEA’s Expenditure Reporting System. The District must have controls over the reimbursement draw downs, must certify that the drawdown is true and correct.</p>	<p><b>Transactions Tested:</b> We selected a total of six (6) reimbursement requests totaling \$307.5 million. Three (3) of those reimbursement requests were related to ESSER III and totaled \$144.5 million. The remaining \$163.0 million were related to ESSER II.</p> <p><b>Summary of Procedures:</b> We ensure that the reimbursement requested submitted through TEA’s Expenditure Reporting system was certified and that there was evidence of review and approval. We ensured that the general ledger detail supported each of the six (6) reimbursement requests. We also ensured that the indirect costs included in the reimbursement requests were recouped using the TEA issued indirect cost rate and that the direct expenditure base was appropriate.</p> <p><b>Results:</b> No findings to report.</p>

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Compliance Requirement Satisfied	Transactions Tested
<p><b>Equipment and Property Management</b></p> <p>1. The District must receive pre-approval for capital outlay from TEA through the application process.</p> <p>2. For construction, the pass-through entity must have considered applicable US Department of Education (ED) construction requirements as part of the pass-through entity's prior approval process for construction. For example, if an LEA proposed renovating a school building to increase the filters or ventilation to its HVAC system, the pass-through entity must ensure compliance with applicable construction regulations (such as 34 CFR 75.609 (Safety and Health standards) and 75.616 (Energy Conservation))?</p> <p>3. The District's records must identify equipment acquired with ESSER II and III funds and must contain the required information.</p> <p>4. The District must perform a physical inventory of its capital assets involving federal grants every two years. Any differences between the property records and the physical inventory count must be resolved. The equipment acquired under federal awards from the property records must be safeguarded and maintained.</p>	<p><b>Transactions Tested:</b> We reviewed the General Ledger detail for object codes beginning with a 66xx as provided by the Cross-Functional Team Member, Special Revenue Accounting. We also obtained the budget per the ESSER II and III applications. The fiscal year 2022 Inventory Audit Memo as prepared by the Fixed Asset Audit Department detailing the physical inventory.</p> <p>The general ledger detail for ESSER II and ESSER III showed a total of \$7.1 million and \$8.8 million, respectively.</p> <p><b>Summary of Procedures:</b> We ensured that the budgeted amounts in the applications were appropriate, and the types of capital assets purchased were in line with the items described in the application.</p> <p>We also tested \$1.3 million or five (5) transaction as part of our nonpayroll control and compliance test. We ensured that the items charged to the 66xx object code were properly accounted for and followed the District's internal controls.</p> <p>We verified that the required physical inventory of equipment was performed. We ensured that ESSER-purchased capital assets were considered part of the physical inventory. We also ensured that the property records contained the required information such as Serial/Purchase Order/Tag/Asset Number and room location.</p> <p>Results: The budgeted amounts reflected in the ESSER II and III applications were \$33.1 million and \$218.7 million, respectively. We also compared the detailed items included in the application to the actual capital outlay purchased and found no exceptions.</p> <p>One asset from the ESSER III capital outlay was included as part of the physical inventory. All other ESSER capital assets were purchased in June 2022, which is shortly after the date of the physical inventory. The assets purchased in late fiscal year 2022 will be included in the fiscal year 2024 physical inventory.</p> <p>We verified that property records contained the required information such as Serial/Purchase Order/Tag/Asset Number and room location. Pictures were also included and reviewed by the District as part of the physical inventory inspection to confirm that equipment is properly safeguarded.</p> <p>ESSER II items coded to 66xx were library books and were excluded from the list of inventory for 2022. Per the Texas Education Agency Financial Accountability System Resource Guide, library books are to be coded to 66xx, but these items fall under the per unit capitalization value of \$5,000 and as such are not included in the physical inventory count for capital assets. No exceptions or findings to report.</p>

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Compliance Required Satisfied	Transactions Tested
<p><b>Matching, Level of Effort and Earmarking</b></p> <p><b>Matching - None</b>  <b>Level of Effort - None</b>  <b>Earmarking</b> - 20 percent of the ESSER III allocation must be set aside for initiatives to address the learning loss caused by COVID-19. The requirement must be met at the end of the grant (i.e. September 30, 2024).</p>	<p><b>Transactions Tested:</b> We reviewed the District’s ESSER III tools to track learning loss. The District provided us with its Learning Loss Tracker as of November 16, 2023 as well as budget workshops documentation and the participants that attended the Texas Education Agency training covering learning loss. The total amount of ESSER III funding allocated towards learning loss was \$801.5 million out of the total award amount of \$804.7 million. We selected four (4) learning loss initiatives totaling \$73.8 million that were identified as learning loss for testing. ESSER II does not have a learning loss expenditure requirement.</p> <p><b>Summary of Procedures:</b> We verified that the District has a mechanism to monitor its learning loss expenditures and that it is on track to spend at least 20% of its ESSER III funds at by the end of the grant period or September 30, 2024.</p> <p>We reviewed the support for the four (4) initiatives totaling \$73.8 million and requested supporting documentation for those expenditures. We also compared the minimum expenditures requirement for learning of \$160.3 million against the monitoring documentation.</p> <p><b>Results:</b> Of the \$73.8 million in learning loss expenditures selected for testing, we were only able to trace \$34.7 million in supporting documentation. Upon discussion with the CTM ESSER employee, the variance was caused because the program packets were created at the beginning of the ESSER III planning phase. These funds could have been shifted to other initiatives. Please note that the District is required to spend \$160.3 million in learning loss by the end of September 30, 2024.</p> <p><b>See Observations and Recommendations.</b></p>
<p><b>Procurement and Suspension and Debarment</b></p>	<p><b>Transactions Tested:</b> We identified vendors the District incurred expenditures with totaling \$50,000 or more during fiscal year 2022. For ESSER II there was a total of 71 vendors or commodity types totaling \$37.4 million. We tested a sample of 10 vendors totaling \$8.3 million in expenditures. For ESSER III, there were a total of 78 vendors or commodity types that totaled \$40.7 million. We tested 10 vendors totaling \$3.5 million.</p> <p><b>Summary of Procedures:</b> For vendors with less than \$250,000, we tested compliance with state procurement requirements under Texas Education Code 44.031. For expenditures by vendor totaling \$250,000 or more, we tested compliance with TEC 44.031 and 2 CFR 200.320(b). We also tested that the District had an internal control to verify the vendors were not suspended or debarred. We also looked up all 20 vendors to determine where they were an excluded party under <a href="http://www.sam.gov">www.sam.gov</a></p> <p><b>Results:</b>  No exceptions.</p>

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Compliance Required Satisfied	Transactions Tested
<p><b>Special Tests and Provisions</b></p> <ol style="list-style-type: none"> <li>1. Maintenance of Equity</li> <li>2. Uses of Funds Plan</li> <li>3. Return to In-Person Instruction and Continuity</li> </ol>	<p><b>Transactions Tested:</b> We reviewed the District’s maintenance of equity calculation, uses of funds plan and the return to in-person instruction and continuity plans.</p> <p><b>Summary of Procedures:</b></p> <ol style="list-style-type: none"> <li>1. <b>Maintenance of Equity</b> - The American Rescue Plan Act of 2021 mandates an additional federal fiscal requirement to ensure that local education agencies and campuses that serve a large share of students from low-income backgrounds do not experience a disproportionate reduction in funding in fiscal years 2022 and 2023.</li> <li>2. <b>Uses of Funds Plan</b> - Is only a requirement for ESSER III. The District was required to submit the plan by July 27, 2021 and must make it publicly available on the District’s website. The plans must include:             <ol style="list-style-type: none"> <li>a. The extent to which and how the funds will be used to implement prevention and mitigation strategies that are, to the greatest extent practicable, consistent with the most recent Centers for Disease Control and Prevention (CDC) guidance on reopening schools, in order to continuously and safely open and operate schools for in-person learning.</li> <li>b. How the LEA will use the funds it reserves under section 2001(e)(1) of the ARP Act to address the academic impact of lost instructional time through the implementation of evidence-based interventions, such as summer learning or summer enrichment, extended day, comprehensive afterschool programs, or extended school year.</li> <li>c. How the LEA will spend its remaining ARP ESSER funds consistent with section 2001(e)(2) of the ARP Act.</li> <li>d. How the LEA will ensure that the interventions it implements, including but not limited to the interventions implemented under section 2001(e)(1) of the ARP Act to address the academic impact of lost instructional time, will respond to the academic, social, emotional, and mental health needs of all students, and particularly those students disproportionately impacted by the COVID–19 pandemic, including students from low-income families, students of color, English learners, children with disabilities, students experiencing homelessness, children in foster care, and migratory students</li> <li>e. LEA must engage in meaningful consultation with stakeholders and give the public an opportunity to provide input in the development of its plan.</li> <li>f. Must be posted on the District’s website 30 days of receiving the grant</li> <li>g. Report in ESSER III Application Fund Funding</li> </ol> </li> </ol>

**HOUSTON INDEPENDENT SCHOOL DISTRICT**  
**ELEMENTARY AND SECONDARY SCHOOL**  
**EMERGENCY RELIEF II and III AUDIT (continued)**

**AUDIT SCOPE AND APPROACH (continued)**

Compliance Required Satisfied	Transactions Tested
<p><b>Special Tests and Provisions (continued)</b></p> <ol style="list-style-type: none"> <li>1. Maintenance of Equity</li> <li>2. Uses of Funds Plan Return to In-Person Instruction and Continuity</li> </ol>	<p><b>Summary of Procedures: (continued)</b></p> <ol style="list-style-type: none"> <li>3. <b>Return to In-Person Instruction and Continuity</b> - The District plan for safe return to in-person instruction and continuity of services is required for all local education agencies including those that have already returned to in-person instruction. The plan must address:               <ol style="list-style-type: none"> <li>a. To the extent to which it has adopted policies include a description of any such policies, on each of CDC’s safety recommendations.</li> <li>b. The District will ensure continuity of services, including but not limited to services to address students’ academic needs and students’ and staff social, emotional, mental health and other needs, which may include student health and food services.</li> <li>c. The District must review its plan every six (6) months, and as appropriate revise it, through the end of ESSER III grant period</li> </ol> </li> </ol> <p><b>Results:</b></p> <ol style="list-style-type: none"> <li>1. <b>Maintenance of Equity</b> - The District methodology included using the 2021 and 2022 Public Education Information Management System (PEIMS) Fall Submission Budget data. The District then compared the state and local per pupil amount in fiscal year 2021 to 2022. The District concluded it was in compliance.</li> <li>2. <b>Use of Funds Plan</b> - No exceptions.</li> <li>3. <b>Safe Return to In-Person Instruction and Continuity Plan</b> - No exceptions.</li> </ol>

**HOUSTON INDEPENDENT SCHOOL DISTRICT**

**ELEMENTARY AND SECONDARY SCHOOL**

**EMERGENCY RELIEF II and III AUDIT (continued)**

**OVERALL CONCLUSION**

The District is in compliance with the requirements of ESSER II and ESSER III for the fiscal year ended June 30, 2022. There are two (2) observations related to review and approval of nonpayroll transactions as well as the tool used to track the District’s learning loss initiatives.

**OBSERVATIONS AND RECOMMENDATIONS**

**Observation: Allowable Activities and Allowable Costs/Cost Principles** - Of the 75 transactions tested, there were three (3) ESSER II transactions that did not reflect the proper approval by the appropriate personnel. The District indicated that the accounting system may not have been updated at the time to list “external funding” as an approver. The three transactions were dated October 27, 2021, and October 8, 2021 and were related to Miscellaneous Contract Services. We noted there were other transactions during the same period that were properly approved.

**Recommendation:** We recommend that all transactions coded to a federal program be subject to the internal controls in place within the District. It is unknown why these transactions did not follow the same control procedures as the other expenditures during the same time period.

**Management’s Action Plan:**

<p>1. Implement as proposed <input type="checkbox"/></p> <p>2. Implement alternative plan (add a comment) <input type="checkbox"/></p> <p>3. Take no action (add a comment) <input checked="" type="checkbox"/></p>	<p><b>Responsible Party:</b> Ryan Bramlett, CTM, External Funding</p> <p><b>Planned Completion Date:</b> N/A</p>
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**Management’s Comment:**

The District has a workflow approval process in place for expenditures funded from grants for existing funds that ensures expenditures flow to the appropriate individuals for approval. ARP Act ESSER III was a new fund and new grant - 2820000000 that was new to the district. Due to being new to the District, the District had to build into its workflow approval process for ARP Act ESSER III expenditures to be reviewed and approved by External Funding in the workflow. At the beginning of the ARP Act ESSER III, the District was in the process of implementing an internal controls system to include External Funding in the approval workflow for ARP Act ESSER III *concurrently* when ARP Act ESSER III was first being implemented within the District. These transactions did not follow the same control procedures due to these occurred at the beginning of the ARP Act ESSER III period for the District and the controls were in the process of being implemented. Since these transactions have occurred, the District has completed the process update to ensure External Funding is included in all workflow approvals for expenditures funded from ARP Act ESSER III.

**HOUSTON INDEPENDENT SCHOOL DISTRICT**

**ELEMENTARY AND SECONDARY SCHOOL**

**EMERGENCY RELIEF II and III AUDIT (continued)**

**OBSERVATIONS AND RECOMMENDATIONS (continued)**

**Observation: Earmarking - Learning Loss for ESSER III** - We were provided with a learning loss expenditure monitoring worksheet that included \$801.5 million in expenditures allocated to address learning loss. The four (4) initiatives selected for testing totaled \$73.8 million per the District’s monitoring tool, but the District was only able to provide \$34.7 million in supporting documentation. The District had pivoted from its initial plan for ESSER III. The monitoring tool was provided in November of 2023 and then updated again in March 2024.

**Recommendation:** We recommend the District update its initiatives and corresponding expenditures included in its monitoring tool with the actual learning loss initiatives and expenditures. We also recommend that it perform an analysis by comparing the actual learning loss expenditures to the required \$160 million (20% of the \$804 million allocation) set aside per federal regulation. There is no indication that the District is at risk of not meeting this requirement. However, the monitoring tool should always reflect the actual expenditures by fiscal year and with a cumulative total so that the District knows its progress at all times. Dollar amounts should also be assigned to the Uses of Funds Plan that addresses learning loss.

**Management’s Action Plan:**

<p>1. Implement as proposed <input type="checkbox"/></p> <p>2. Implement alternative plan (add a comment) <input type="checkbox"/></p> <p>3. Take no action (add a comment) <input checked="" type="checkbox"/></p>	<p><b>Responsible Party:</b> Ann Nguyen, CTM, Special Revenue Accounting Pamela Evans, RTSBA, Senior Executive Director – ESSER, External Funding (Titles I, II &amp; IV) and Grant Development Departments</p> <p><b>Planned Completion Date:</b> N/A</p>
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**Management’s Comment:**

The learning loss expenditure monitoring worksheet was a monitoring tool that provided the *total funds allocated that may not have been fully expended yet* in ARP Act ESSER III for all three years: 2021-2022, 2022-2023, and 2023-2024. The supporting documentation provided was for expenditures that occurred from the four (4) initiatives selected for the 2021-2022 and 2022-2023 school years due to the 2023-2024 school year was not a part of this review. The monitoring tool is a live document that is updated regularly as the district continues to utilize and close out ARP Act ESSER III in the final year 2023-2024. The Use of Funds Plan is a live document as well. As the District moves into finalizing ARP Act ESSER III, the Use of Funds Plan will be updated to reflect the most up current reflection of how the District utilized ARP Act ESSER III funds to address learning loss.