

March 12, 2010

Mr. Jack Gaskins
Superintendent
Refugio Independent School District
212 West Vance Street
Refugio, TX 78377

Subject: Final Letter of Findings

Dear Mr. Gaskins:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to the Refugio Independent School District (CDN: 196-903) (the subrecipient). The review focused on the grants awarded to the subrecipient pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA) as of October 23, 2009. The review was limited to the representations and records provided by the subrecipient in response to the auditors' formal correspondence dated October 23, 2009 and the interview conducted on November 9, 2009. Your response to the preliminary letter of findings dated March 10, 2010 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachment C. This review is now considered closed.

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Jerel Booker, Associate Commissioner of Educator Quality and Standards
Yolanda Cantu, Director, Division of Formula Grants Administration
Rita Chase, Director, Division of Financial Audits
Kathy Clayton, Senior Director, Division of IDEA Coordination
Cory Green, Senior Director, Division of NCLB Program Coordination
Earin Martin, Chief Grants Administrator
Dr. Julius D. Cano, Executive Director, Education Service Center III

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Attachment A

Background:

As discussed in their notification letter dated October 23, 2009, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to the Refugio Independent School District (CDN: 196-903) (the subrecipient). The primary focus of this review was to inquire about subrecipient's fiscal controls in effect over federal awards and about the activities, functions, programs and services implemented by the subrecipient in support of the statutory, regulatory and other requirements pertaining to the ARRA funded grants.

Summary of Audit Scope, Objectives and Methodology

Objectives

The review was focused on the following objectives:

1. Whether the subrecipient developed policies and procedures for the effective control of public funds.
2. Whether the subrecipient implemented a program that adhered to the fiscal, program and other requirements applicable to the public funds disbursed to the subrecipient.
3. Whether the financial, program and other records of the subrecipient accurately and completely accounted for the obligation, receipt, expenditure, and use of public funds.
4. Whether financial, program, and other reports filed by the subrecipient were fairly presented and properly supported by the subrecipient's source documentation.

Scope

Consistent with the objectives of the review identified above, auditors limited the scope of their work to the subrecipient functions and activities implemented in support of the intent and objectives of the grants noted in the Table A below for the grant periods indicated.

TABLE A			
Individual NOGAs Selected for the Review			
NOGA ID	NOGA Description	Begin Date	End Date
10554001196903	IDEA-B FORMULA - ARRA – LEA	6/18/2009	9/30/2011
10555001196903	IDEA-B PRESCHOOL – ARRA - LEA	6/18/2009	9/30/2011
10557001196903	ARRA Title XIV SFSF Grant	9/01/2009	9/30/2010

Methodology

Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal

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requirements applicable to federal awards were met. In general, auditors performed the following audit procedures:

1. Auditors researched the federal and state laws and rules, the grant and program requirements applicable to the grants listed in Table A.
2. Auditors reviewed the grant applications for the grants listed in Table A.
3. Auditors interviewed subrecipient personnel and other agents about the activities, functions, programs and services implemented for the grants and the records created and maintained for the grants.
4. Auditors reviewed organizational charts, local policy and procedures manuals, and other authoritative records to understand the subrecipient's organizational structure and identify internal controls and processes.
5. Auditors examined documentary evidence including, but not necessarily limited to; financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, and policies and procedures.
6. Auditors conducted an onsite visit and completed work programs and the related working papers.
7. Auditors applied certain criteria including, but not necessarily limited to, the requirements discussed in the Special Supplement to the Financial Accountability System Resource Guide, Title 34 Code of Federal Regulations 80.20, the American Recovery and Reinvestment Act of 2009, PL-111-5 (Recovery Act), OMB Circulars A-122, and A-133, and the applicable request for application and approved grant application, as amended.

Summary of Findings

Based upon their review of the subrecipient's records, auditors observed the following: observed the following issues:

Finding # 1: The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (3). Specifically, auditors noted that the subrecipient's policies and procedures did not adequately describe the processes, authorizations, records and other internal controls required by the subrecipient to maintain effective control and accountability for all grant cash, real and personal property, and other assets and to adequately safeguard all such property and assure that it was used solely for authorized purposes.

Finding # 2: The subrecipient failed to develop and implement comprehensive administrative procedures that identified the processes and forms that would ensure compliance with federal requirements, including administrative procedures that addressed the time and effort requirements promulgated in OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments.

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Finding # 3: The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(2)(4). Specifically, auditors noted that the subrecipient's accounting records did not adequately comply with the Financial Accounting and Reporting Resource Guide.

Finding # 4: The subrecipient did not implement its own process to comply with the reporting requirements of Section 1512 of the Recovery Act.

General Conclusion

Based on their factual observations, auditors concluded that the subrecipient did not maintain an effective system of internal controls to ensure the appropriate expenditure of grant funds for the purposes stipulated and costs allowed in federal law and rules.

Questioned Costs

None.

Auditors' Addendum

Auditors reviewed the subrecipient's response dated March 10, 2010 and noted that the subrecipient submitted adequate documentation to address findings 1 through 3 noted above. Auditors concur with subrecipient's response and proposed corrective action plan.

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**Attachment B: Auditors' Observations
Federal Requirements**

As part of their planning activities and during the course of their review, auditors identified certain requirements applicable to the grant. Specifically, auditors referenced the following requirement during the course of their review:

Section 80.20 of Title 34 of the Code of Federal Regulations, Standards for financial management systems.

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract

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and subgrant award documents, etc.

(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre-award review or at any time subsequent to award.

Section H of Office of Budget and Management Circular A-87: Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) 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 standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

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- (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet 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

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Based on their review of the documents provided by the subrecipient in response to their correspondence and other inquiries, auditors observed the following issues:

Finding # 1: The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (3). Specifically, auditors noted that the subrecipient's policies and procedures did not adequately describe the processes, authorizations, records and other internal controls required by the subrecipient to maintain effective control and accountability for all grant cash, real and personal property, and other assets and to adequately safeguard all such property and assure that it was used solely for authorized purposes.

Statements of Fact

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls based on their review of local policies and procedures maintained by the subrecipient.

Auditors observed that the subrecipient did not maintain locally developed policies and procedures which adequately described the following:

- a) The policies and procedures which ensure that contracted services are allowable under the applicable statute, regulations and other requirements.
- b) Property management policy that identified the property for e.g., all capitalized property that will receive a property ID and be recorded in the subrecipient's property management records.
- c) The travel reimbursement policy indicating the amounts that would be reimbursed for travel costs. The reimbursement rates for some staff members exceeded the maximum allowable amounts identified by the Texas Comptroller of Public Accounts for the fiscal year 2009-2010.
- d) The written policies and procedures that described the process that subrecipient personnel were required to follow for employee reimbursement of expenditures of grant funds lacked the following:
 1. The types of expenses that it would reimburse to an employee.
 2. The reimbursement process, including the authorization necessary prior to the expenditure of grant funds and the subsequent approval of any expenditure that exceeded the approved amount.
- e) The written policies and procedures that described the process that subrecipient personnel were required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit did not include the following:

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1. The maintenance control over the account(s) (e.g., the subrecipient required the card holder to maintain the charge card in a safe deposit box in the business office and a log of who used the charge card and the amount that person was authorized to charge).
 2. The policies and procedures requiring subrecipient personnel to file original itemized third-party invoices or receipts for reimbursement.
- f) The policies and procedures pertaining to budgets did not identify the circumstances (e.g., need to amend the budget for the addition of a new position) that required the budget to be amended.
- g) The subrecipient did not have written policies and procedures that list or specifically identify the costs that are allowed from grant funds.
- h) The policies and procedures did not require or address the following internal controls:
1. Segregation of duties for signing checks, bank reconciliations, and maintaining non-cash accounting records, (including but not limited to accounts receivable, the general ledger, or the general journal of Federal funds).
 2. Bank Reconciliations, (regularly, at minimum on a monthly basis).
 3. Reconciliation of statements reviewed by appropriate subrecipient staff.
 4. Monitoring daily deposits of all receipts (e.g., Federal grant funds and all other funds including program income).

Effect

The subrecipient's material internal control weaknesses adversely affected its ability to comply with 34 CFR 80.20(b)(3) and 34 CFR 80.20(b)(6) to properly administer grants funds. Consequently, the subrecipient's failure to implement an adequate system of internal controls placed grant funds at risk of being misused and impeded the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding # 2: The subrecipient failed to develop and implement comprehensive administrative procedures that identified the processes and forms that would ensure compliance with federal requirements, including administrative procedures that addressed the time and effort requirements promulgated in OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments.

Statements of Fact

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

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Auditors examined the subrecipient's policies and procedures and accounting records and noted the following:

- a) The subrecipient's policies and procedures did not describe the circumstances under which personnel will be required to prepare periodic certifications or personnel activity reports.
- b) The subrecipient did not maintain a time and effort reporting system, including proper separation of duties, review and approval of time worked and semi-annual certifications.
- c) The subrecipient did not maintain periodic certification of an employee who worked solely on a single federal award or cost objective.

Effect

The subrecipient's material internal control weaknesses adversely affected its ability to comply with OMB A-87 to properly administer grant funds. Consequently, the subrecipient may not use funds for the purpose and intent of the enabling legislation.

Finding # 3: The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(2)(4). Specifically, auditors noted that the subrecipient's accounting records did not adequately comply with the Financial Accounting and Reporting Resource Guide.

Statements of Fact

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

Auditors examined the subrecipient's accounting records and noted the following:

- a) As of November 9, 2009, several member districts that were awarded their share of the ARRA grants did not have initial budgets of grant funds setup in their respective financial management system to ensure compliance with CFR 80.20 (b)(4) and FASRG.
- b) One of the member district business manager indicated that the initial budget was not set up by that member district because they were not aware of the source of funds.
- c) Auditors noted that one of the member district's detailed general ledger indicated the use of fund code 364 to record expenditures of grant funds. The fund code 364 should only be used by the fiscal agent of a shared services arrangement to account, on a project basis, for funds granted to operate educational programs for children with disabilities.

Effect

Member districts' failure to comply with CFR 80.20 (2) (4) and FARSG impeded the fiscal agent's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding # 4: The subrecipient did not implement its own process to comply with the reporting

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requirements of Section 1512 of the Recovery Act.

Statements of Fact

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

Auditors examined the subrecipient's accounting records and noted following:

- a) Auditors noted the fiscal agent did not maintain supporting documentation verifying the job numbers reported by member districts as result of ARRA funding. According to the subrecipient's process in place, member districts were required to fill out an "ARRA Stimulus Fund Request" form identifying and explaining the jobs they created with their portion of ARRA funding. However, the fiscal agent did not maintain these forms on file to justify the jobs reported in the quarterly report filed by the fiscal agent.
- b) Auditors noted that the shared service cooperative had asked each member district to fill out a needs assessment form identifying their needs and matching them with ARRA goals. However, auditors noted that none of the member districts of the share service agreement completed these forms to ensure that ARRA goals and initiatives were aligned with the needs assessment of each respective member district.

Effect

Member districts' failure to implement fiscal agent's process to comply with Section 1512 of the Recovery Act may have adversely affected the fiscal agent's ability to report the accurate data and expend grant funds for the purposes stipulated and costs allowed in federal law and rules..

Recommendations

Auditors recommend that the subrecipient consider the following corrective actions:

- Recommendation 1 The subreceptient should review its existing policies and procedures and update and/or implement adequate internal control policies and procedures to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.
- Recommendation 2 The fiscal agent is responsible for applying, receiving, collecting, expending and disbursement of grant funds and reporting data to the agency. Therefore, fiscal agent must ensure that member districts provide reports to the fiscal agent that are in compliance with applicable laws, rules and regulations.

Questioned Costs

None

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Finding Types

Compliance/Internal Control

Subrecipient's Response and Corrective Action Taken or Proposed

Refer to attachment C.

Auditors' Addendum

Auditors concur with subrecipient's response and the proposed corrective action plan.

