

March 5, 2010

Mr. David Borrer
Superintendent
Hutto Independent School District
P.O. Box 430
Hutto, TX 78634-0430

Subject: Final Letter of Findings

Dear Mr. Borrer:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Hutto Independent School District (CDN: 246-906) (the subrecipient). The review focused on the grants awarded to the subrecipient pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). The review was limited to the representations and records provided by the subrecipient in response to the auditors' formal correspondence dated September 22, 2009 and the interview conducted on September 30, 2009. Your response to the preliminary letter of findings dated February 15, 2010 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachment C.

Although the records, and working papers submitted by the subrecipient remain subject to review by appropriate federal and/or state oversight entities, auditors consider this review closed. You will be notified in the event a follow up to the review is scheduled.

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
Earin Martin, Chief Grants Administrator

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Attachment A: Summary of Audit Scope, Objectives and Methodology

The auditors focused their review on the subrecipient's compliance with certain fiscal requirements applicable to the grants listed in Table A below for the grant period indicated. The audit objectives were (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.

Table A			
NOGA ID	NOGA Description	Begin Date	End Date
10554001246906	IDEA-B FORMULA - ARRA - LEA	8/12/2009	9/30/2011
10555001246906	IDEA-B PRESCHOOL – ARRA - LEA	8/12/2009	9/30/2011

Accordingly, the auditors' inquiry was limited to the records provided by the subrecipient. Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. The auditors' findings are discussed in this attachment and in Attachment B.

Summary of Findings

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

- Finding 01. The subrecipient did not demonstrate that it adequately 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 in order for the subrecipient to maintain effective control and accountability for all grant cash, real and personal property, other assets and to adequately safeguard all such property and assure that it was used solely for authorized purposes.
- Finding 02. The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (4). Specifically, auditors noted that the subrecipient's budget did not indicate that the subrecipient maintained effective budgetary control of grant expenditures.
- Finding 03. The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (5). Specifically, the subrecipient did not maintain a job description for a new position paid with grant funds.

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Auditors' Addendum

Auditors reviewed the subrecipient's response dated February 18, 2010 and noted that the subrecipient submitted adequate documentation to address findings 1 through 3 noted above.

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Attachment B: Auditors' Observations

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 01. The subrecipient did not demonstrate that it adequately 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 in order for the subrecipient to maintain effective control and accountability for all grant cash, real and personal property, other assets and to adequately safeguard all such property and assure that it was used solely for authorized purposes.

Auditors noted the following observations during their review of the subrecipient's written policies and procedures.

Description of Policy and Procedure Demonstrating Compliance with 34 CFR 80.20(b)(3)	Policy and Procedure Was	
	Inadequately Documented	Not Documented
The subrecipient's policies and procedures included a description of the process that subrecipient personnel were required to follow for the expenditure of grant funds for professional and contracted services. The policies and procedures included the following requirements. 1. A description of the degree to which the contractor was required to describe the goods and/or services provided to the subrecipient (e.g., the dates, total hours and number of students to whom the contractor provided therapy).		X
2. A stipulation that subrecipient personnel document the receipt of goods and/or services on the purchase order, invoice or other record and that subrecipient personnel monitor the contractor's performance of the terms of the contract, receipt of goods and/or services on the purchase order, invoice or other record		X
The subrecipient's policies and procedures included a description of the process that subrecipient personnel were required to follow for the expenditure of grant funds for supplies and materials and miscellaneous operating costs. The policies and procedures included the following requirements. 1. A stipulation that subrecipient personnel document the		

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Description of Policy and Procedure Demonstrating Compliance with 34 CFR 80.20(b)(3)	Policy and Procedure Was	
	Inadequately Documented	Not Documented
<p>receipt of goods and/or services on the purchase order, receiving report, invoice or other record and that subrecipient personnel monitor the contractor's performance of the terms of the contract.</p> <p>2. A stipulation that subrecipient personnel document any items missing, damaged, or otherwise not received or rejected.</p> <p>3. A stipulation that subrecipient personnel compare the marked purchase order, receiving report or other record to the vendor's invoice to ensure that the vendor did not charge the subrecipient for items not received or rejected.</p>		<p>X</p> <p>X</p> <p>X</p>
<p>The subrecipient's policies and procedures that described the process the subrecipient personnel were required to follow for the expenditure of grant funds for real or personal property did not include following policies and procedures.</p> <p>1. A description of the property management policy (e.g., all capitalized property will receive a property ID and be recorded in the grantee's property management records).</p> <p>2. A stipulation that the subrecipient file written correspondence with the TEA regarding personal or real property acquired with grant funds in which it requests instructions from the TEA for the disposal of the property.</p>	<p>X</p>	<p>X</p>
<p>The subrecipient's written policies and procedures regarding the allowable costs to grant funds described one or more of the following activities or requirements.</p> <p>1. A list, schedule or other enumeration of the specific costs that the grantee identified as allowable costs for grant funds.</p> <p>2. The costs identified as allowable by the subrecipient were substantially the same as those identified in the Federal Cost Principles Side By Side guide or Appendix 1, TEA Guidelines Related to Specific Costs, issued by</p>	<p>X</p> <p>X</p>	

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Description of Policy and Procedure Demonstrating Compliance with 34 CFR 80.20(b)(3)	Policy and Procedure Was	
	Inadequately Documented	Not Documented
the TEA. 3. The individual(s) (by functional title) in the program area (e.g., federal programs coordinator or special education director) and in the business office (e.g., grant accountant or controller)	X	
The subrecipient's written policies and procedures described one or more of the following activities or requirements. 1. The retention of grant records for a period of seven years. 2. The medium that the subrecipient would use to retain records (e.g., paper records, electronic files, both), the location of its archived records (e.g., central administrative office, off-site storage facility) and the process for the inventory and disposal of records, including the individual(s) authorized to approve the disposal of records.	X	X

In addition to the observations discussed above, auditors further noted the following observations during their review of the subrecipient's expenditure reports and financial accounting records.

The subrecipient purchased a vehicle with IDEA Part B ARRA funds to provide transportation to students with disabilities. However, the subrecipient did not have documented policies and procedures describing the process that the subrecipient personnel were required to follow to ensure that the vehicle was used solely for authorized purposes.

The capitalization schedule provided by the subrecipient did not include the source of funds it used to purchase the equipment listed on the schedule.

Finding 02. The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (4). Specifically, auditors noted that the subrecipient's budget did not indicate that the subrecipient maintained effective budgetary control of grant expenditures.

Auditors noted the following findings during their review of the subrecipient's written policies and

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procedures.

Description of Policy and Procedure Demonstrating Compliance with 34 CFR 80.20(b)(4)	Policy and Procedure Was	
	Inadequately Documented	Not Documented
<p>The subrecipient's policies and procedures included a description of the process used to develop and amend the budget. The policies and procedures included the following requirements.</p> <ol style="list-style-type: none">1. A description of the circumstances (e.g., need to amend the budget for the addition of a new position) that required the budget to be amended.2. A statement requiring the amendment of a TEA grant to be filed with the TEA if the amendment met one or more of the following criteria.<ul style="list-style-type: none">▪ The amendment resulted in a line item change that exceeded 25 percent of the total grant budget.▪ The amendment resulted in an increase or decrease in the number and composition of the positions funded.▪ The amendment resulted in the classification of an amount to a line item not previously budgeted.3. The amendment resulted in an increase or decrease in budgeted capital outlays.		<p>X</p> <p>X</p> <p>X</p>

Finding 03. The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b) (5). Specifically, the subrecipient did not maintain a job description for a new position paid with grant funds.

Auditors noted that subrecipient's Administrative Procedures Guide-Employee Compensation Plan for the fiscal year 2009-2001 (page 3) indicated that new positions must have a written job description and new positions must be classified in the pay system prior to hiring a new employee. However, the subrecipient did not maintain a job description for a new employee paid with ARRA funds.

Effect

The subrecipient's material internal control weaknesses adversely affected its ability to comply

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with 34 CFR 80.20 and to properly administer grant 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.

Questioned Costs

None

Finding Type

Compliance/Internal Control

Material Finding

No.

Subrecipient's Response and Corrective Action Taken or Proposed

Refer to Attachment C

Auditors' Addendum

Auditors reviewed the subrecipient's response dated February 18, 2010 and noted that the subrecipient submitted adequate documentation to address findings 1 through 3 noted in the preliminary letter of findings.

Auditors' Recommendation(s)

The Special Education Suburban Rental Request form and Special Education Rental Guidelines did not address a mileage log that should be kept with the vehicle and updated by the driver using the vehicle for each trip. The mileage logs usually consist of date of the trip, beginning odometer reading, ending odometer reading, destination, purpose/description and total miles driven by the driver to ensure that vehicle is only used for purposes stipulated in the program. Additionally, auditors recommend that the subrecipient designate a staff member to periodically monitor the mileage log.

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Federal Requirements

As part of their planning activities and during the course of their review, auditors identified certain requirements applicable to the grants. 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 expend 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 and subgrant award documents, etc.

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(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."

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Attachment C: Subrecipient's Response to Auditors' Report

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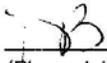
December 22, 2009

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Attachment C: Subrecipient's Response to Auditors' Report



(Please Initial) The subrecipient concurred with the auditors' observations, general conclusion, assessment of risk and recommendation. Additionally, the subrecipient enclosed the attached proposed corrective action to address the auditors' observations. Refer to Attachment D.



(Please Initial) The subrecipient did not concur with the auditors' observations, general conclusion, assessment of risk and recommendation and enclosed a written response discussing its disagreement. Insert your response as Attachment E. The subrecipient also enclosed copies of documents that support its disagreement with the auditors' preliminary letter of findings. Insert supporting documents as Attachment(s) F through F.

(Please Initial) The subrecipient concurred with only the observations noted below and proposed the corrective actions noted on Attachment D to this response. However, the subrecipient did not concur with the other observations, as noted below, and has enclosed a written response discussing its disagreement. Insert your response as Attachment E. In this latter regard, the subrecipient has also enclosed copies of documents that support its disagreement with the contents of the preliminary letter of findings. Insert supporting documents as Attachment(s) F through _____.

Finding	Subrecipient Concurred	
	Yes	No
01		
02		
03		

I, the undersigned, attest and affirm that our response above and the supporting attachments, C through F, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated December 22, 2009 from the Division of Financial Audits.



Superintendent's Signature

2-18-10

Date Signed

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