

November 23, 2010

Rev-96-175-910-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mr. Douglas Lane
Superintendent
Mildred Independent School District
5475 S Hwy 287
Corsicana, TX 75109-9328

Subject: Final Letter of Findings

Dear Mr. Lane:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID #10557001175910) grant (the grant) awarded to Mildred Independent School District (CDN: 175-910) (the subrecipient). The review was conducted through written correspondence and was limited to the records provided by the subrecipient in response to the auditors' formal correspondence dated June 18, 2010 and other informal inquiries. Included with this letter are two attachments that describe the auditors' observations, their general finding, and their recommendations. This correspondence and its attachments constitute the auditor's letter of observations.

Although the records 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. We appreciate your cooperation during the conduct of our correspondence review. Should you have any questions, please contact Lance McMillan at (512) 463-9095.

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Rita Chase, Director of Financial Audits

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Attachment A: Summary of Audit Objectives, Scope and Methodology

Objectives

The review was focused on the following objectives:

1. Whether the subrecipient's financial records accurately and completely accounted for the obligation, receipt, expenditure, and use of the grant funds.
2. Whether the subrecipient obligated, expended, received, and used grant funds in accordance with the purpose for which those funds were appropriated or otherwise authorized by laws, rules and regulations.
3. Whether the subrecipient complied with the reporting requirements of ARRA.

Scope and Methodology

Auditors focused their review on the subrecipient's compliance with certain fiscal and reporting requirements applicable to the ARRA Title XIV SFSF grant awarded to the subrecipient by the Texas Education Agency. However, auditors did not intend to scrutinize and did not examine every facet of the subrecipient's administration of the grant. Accordingly, the auditors' inquiry was limited to the records provided by the subrecipient. Auditors reviewed the subrecipient's records to determine if the subrecipient's fiscal and reporting requirements applicable to grant funds were met.

General Finding

Based upon their review of the subrecipient's records, auditors observed that the subrecipient did not adequately implement certain fiscal controls to ensure the proper administration of the grant and to facilitate its compliance with the requirements promulgated by the United States Department of Education in Section 80.20 of Title 34 of the Code of Federal Regulations (34 CFR 80.20) and American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' findings are discussed in Attachment B.

Questioned Costs

Based on the results of their review procedures, auditors questioned \$108,667.90 in costs charged to the grant awarded to the subrecipient.

Recommendation to Subrecipient

Please review this letter carefully and take appropriate corrective actions to address the auditors' observations, recommendations and required actions.

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Attachment B: Auditors' Findings

Observations on Subrecipient's Administration of ARRA awards: Auditors examined financial records created and maintained by the subrecipient and assessed subrecipient's internal controls over quality of data, budgetary process and the use of ARRA funds. 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 complied with the standards for financial management systems promulgated in 34 CFR 80.20. Specifically, auditors noted that the subrecipient's accounting records did not adequately comply with Section 1.8.1.2 of the Financial Accountability System Resource Guide (FASRG) and/or did not provide sufficient or adequate accounting data for the transactions recorded.

- (1) Auditors noted a variance of \$108,667.90 between the expenditures reported on the expenditure reports filed for reimbursements (draw-downs) and the expenditures recorded on the detail general ledger for the grant. Since the total amount of draw-downs exceeded the expenditures recorded in the detailed general ledger of the grant, auditors questioned the variance of \$108,667.90.

Recommendation #1: Administrative requirements for grants stipulate that grantees must request cash as close as possible to the time of making disbursements. Grantees should not have more cash on hand than is necessary to meet three days' cash needs. Therefore, grantees should request only the amount that will be paid out within three business days once the payment is received from TEA. The subrecipient must maintain a cash log showing interest earned on advances, if any. All such interest earned on advances must be remitted by LEAs to the TEA on a quarterly basis.

Required Action: The subrecipient must ensure that amount of expenditures reported on the expenditure reports filed for reimbursements (draw-downs) match with the expenditures recorded on the detail general ledger for the grant.

Observations on ARRA Reporting Requirements: Auditors reviewed documentation in support of the quarterly report filed for the quarter ended March 31, 2010 and noted that the following observations.

Finding 02. The subrecipient did not demonstrate that it complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.

Specifically, auditors noted the following observation during their review of the subrecipient's financial accounting records and documentations in support of the quarterly reports filed with TEA.

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- (1) The subrecipient did not provide adequate documentation to support the number of FTEs it reported on the quarterly report submitted to TEA for the quarter ended March 31, 2010. Auditors could not determine if the subrecipient's FTE calculation was correct because all or some of the following data was not readily available:
- Employee's gross payroll cost and percentage of payroll costs funded by the grant during the quarter.

Recommendation # 2: The subrecipient should update and/or implement adequate internal controls to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreement.