November 10, 2010

Rev-102-201-907-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mr. Dean Evans
Superintendent
Mount Enterprise ISD
301 NW 3rd St.
Mount Enterprise, TX 75681

Subject: Letter of Observations

Dear Mr. Evans:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001201907) grant (the grant) awarded to Mount Enterprise ISD (CDN: 201-907) (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. 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

November 10, 2010

Mr. Dean Evans
Superintendent
Mount Enterprise ISD

Subject: Letter of Observations, Page 2

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 pursuant to American Recovery and Reinvestment Act of 2009 (ARRA). 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 Observation

Based upon their review of the subrecipient's records, auditors observed that the subrecipient adequately implemented 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) However, the subrecipient did not provide adequate documentation to demonstrate its compliance with reporting requirements of ARRA. The auditors' observations are discussed in Attachment B.

Recommendation to Subrecipient

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

November 10, 2010

Mr. Dean Evans
Superintendent
Mount Enterprise ISD

Subject: Letter of Observations, Page 3

Attachment B: Auditors' Observations

Observations on Subrecipient's Administration of ARRA awards: Auditors examined the detailed general ledger 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 noted the following observations.

1. The subrecipient maintained a detailed general ledger that complied with FASRG and 34 CFR74.21/ 80.20(b)(2).

2. The subrecipient utilized its budget and encumbrance accounting systems to maintain effective control over the obligation and expenditure of grant funds that enabled it to compare budgeted amounts for the grant to the actual expenditures incurred and outlays of grant funds in accordance with 34 CFR 74.21/80.20(b)(4).

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 subrecipient accurately compiled, calculated and reported the data to on the quarterly report.

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

Observation #1. 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 documentation in support of the quarterly reports filed with TEA.

(1) The subrecipient did not report the correct number of jobs created/retained by ARRA. Specifically, auditors noted that the subrecipient's payroll cost of grant funds included payments for substitute pay. However, the subrecipient did not factor the hours associated with such costs into its calculations of FTEs reported on the quarterly report submitted to TEA for the quarter ended March 31, 2010.

November 10, 2010

Mr. Dean Evans
Superintendent
Mount Enterprise ISD

Subject: Letter of Observations, Page 4

(2) 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:

- The description of methodology used to calculate the number of FTEs reported in the quarterly report.
- The number of regular hours worked by each grant-funded employee during the quarter.
- The number of hours in a full time schedule for the quarter.
- Employee's gross payroll cost and percentage of payroll costs funded by the grant during the quarter.
- The number of substitute hours and the amount of substitute wages funded by the grant during the quarter (if applicable).

Recommendation #1. The estimate of the number of jobs required by the ARRA should be expressed as FTEs, which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient within the reporting quarter. These FTEs are then adjusted to count only for the portion of the job funded by ARRA. Refer to the following web-link for Section 1512 reporting requirements of ARRA. http://www.tea.state.tx.us/arrastimulus/reporting/

Observations on ARRA Infrastructure Expenditures: The subrecipient did not have any budgeted expenditures for infrastructure projects budgeted from ARRA funds.