

September 29, 2010

Rev-104-205-901-06-2010

VIA UNITED STATES CERTIFIED MAIL

Dr. Crawford Helms
Superintendent
Aransas Pass ISD
244 W. Harrison Blvd.
Aransas Pass, TX 78336-2442

Subject: Letter of Observations

Dear Dr. Helms:

Auditors from the Division of Financial Audits conducted a review of the ARRA Title XIV State Fiscal Stabilization Fund (NOGA ID #10557001205901) grant (the grant) awarded to Aransas Pass ISD (CDN: 205901) (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' findings, their general conclusion, and their recommendations. This correspondence and its attachments constitute a letter of findings of the auditors' 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.

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' Observations

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.

Observation #1. The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(1)(2). Specifically, auditors noted that the subrecipient's accounting records did not adequately comply with Section 1.4 of the Financial Accountability System Resource Guide (FASRG) and/or did not provide sufficient or adequate accounting data for the transactions recorded.

Specifically, auditors noted the following observations during their review of the subrecipient's expenditure reports and financial accounting records.

- (1) Auditors noted that amounts reported on the expenditure report filed for reimbursements (draw-downs) by the subrecipient exceeded the expenditures recorded in the detailed general of the grant during the September 1, 2009 – June 30, 2010 time period. The PDF copy of the general ledger provided by the subrecipient contained balance forward entries totaling \$44,221.17. The subrecipient did not provide explanation and/or documentation for the variance noted above.
- (2) Auditors noted that the payroll costs recorded on the detailed general ledger exceeded the payroll costs recorded in the payroll journals.

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 observation.

Observation #2. 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.

- (1) Auditors noted that the payroll costs reported in the general ledger exceeded the payroll costs recorded in the payroll journals. Due to this variance, auditors could not determine the number of additional employees funded from the grant, at what percentage were they funded and whether or not extra duty pay or substitute pay was included in the payroll costs. Therefore, auditor could not confirm the subrecipient's calculation of FTEs it reported on the quarterly report filed for the quarter ended March 31, 2010.

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Recommendation

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 agreements.