

November 10, 2010

Rev-105-205-907-06-2010

VIA UNITED STATES CERTIFIED MAIL

Dr. Chad Kelly  
Superintendent  
Taft ISD  
400 College St.  
Taft, TX 78390-2702

Subject: Letter of Observations

Dear Dr. Kelly:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001205907) grant (the grant) awarded to Taft ISD (CDN: 205-907) (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, 2010

Dr. Chad Kelly  
Superintendent  
Taft 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 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 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, 2010

Dr. Chad Kelly  
Superintendent  
Taft ISD

Subject: Letter of Observations, Page 3

**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)(4). Specifically, auditors noted that the subrecipient's budget did not indicate that the subrecipient maintained effective budgetary control of grant expenditures.

Specifically, auditors noted the following observations during their review of the subrecipient's expenditure reports, detailed general ledger and other related documents.

- (1) The detailed general ledger included budgeted expenditures but subrecipient failed to budget for payroll expenses. Specifically in regards to payroll (major object 6100), auditors noted that the detailed general ledger did not include an initial appropriation at the beginning of the grant period (e.g., opening entries recorded on the general ledger) and subsequent adjustments to budgeted amounts (e.g., adjusting entries that increase or decrease the budgeted amounts for a general ledger account code classification).

**Recommendation #1.** The subrecipient should ensure that all actual expenditures or outlays are compared with budgeted amounts for each grant or sub-grant as expenses are incurred or encumbered.

**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 #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) The subrecipient's calculation of FTEs, based on the methodology used by the subrecipient, did not match with the number of FTEs the subrecipient reported on the quarterly report it submitted for the quarter ended March 31, 2010. The subrecipient's backup documentation supported 8 FTE's but only .5 FTEs were reported.

**Recommendation #2.** The subrecipient should update and/or implement adequate internal controls to ensure reasonable assurance that it is managing federal

November, 2010

Dr. Chad Kelly  
Superintendent  
Taft ISD

Subject: Letter of Observations, Page 4

awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

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