

November 10, 2010

Rev-115-227-818-06-2010

VIA UNITED STATES CERTIFIED MAIL

Dr. Yolanda Cruz-Wilder
Superintendent
Austin Can Academy
325 W. 12th Ste 200
Dallas, TX 75208

Subject: Letter of Observations

Dear Dr. Cruz-Wilder:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001227818) grant (the grant) awarded to Austin Can Academy (CDN: 227-818) (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

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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 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 74.21 of Title 34 of the Code of Federal Regulations (34 CFR 74.21). 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.

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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 the 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 74.21(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 did not include encumbrances. Specifically, auditors noted that the detailed general ledger did not include journal entries for encumbered purchase order transactions and did not include subsequent journal entries that adjusted the encumbered amounts when the invoice was received or paid.
- (2) The subrecipient did not effectively use its budgeted expenditures and encumbrances to ensure that actual expenditures did not exceed the approved budget. Specifically, auditors noted that the subrecipient's combined encumbrances and expenditures exceeded the grant.
- (3) The expenditures recorded on the detailed general ledger did not agree to the budget approved by the TEA. Additionally, auditors noted the following concern.
 - a) The expenditures included transactions attributable to the classification of an amount(s) to a line item not previously budgeted in the approved grant.

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 that the subrecipient did not have any items that required reporting.

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