December 16, 2010

Rev-117-227-907-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mr. ANDREW KIM
SUPERINTENDENT
MANOR ISD
P O BOX 359
MANOR, TX 78653

Subject: Letter of Observations

Dear Mr. KIM:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001227907) grant (the grant) awarded to MANOR ISD (CDN:227-907) (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. Your response to the Preliminary Letter of Observations and Findings dated October 26, 2010 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachments A and B.

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. Should you have any questions, please contact the undersigned at (512) 463-9095.

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Rita Chase, Director of Financial Audits

September 27, 2010

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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 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 American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' observations are discussed in Attachment B.

Questioned Costs

$0.00

Recommendation to Subrecipient

The subrecipient should review this letter and provide its response on Attachments C and D, and include any relevant documentation supporting its response.

Subrecipient's Response

Refer to Attachment A and B.

Auditor's Addendum

Auditors reviewed the subrecipient's response dated October 26, 2010 to the preliminary letter

of findings and the documentation submitted with the response. Auditors concurred with the subrecipient's response and the proposed corrective actions to address the findings noted below.

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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.

Finding # 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.

Based on their review of the subrecipient's expenditure reports, detailed general ledger and other related documents, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

(1) The appropriations documented in the detailed general ledger did not agree with the amounts and cost categories approved by TEA in the budget as amended.

(2) The expenditures recorded on the detailed general ledger did not agree to the budget approved by the TEA. Specifically, auditors noted the following observations.

a) Auditors noted that the subrecipient expended grant funds for cost categories not approved in the budget as amended. The subrecipient charged expenditures totaling $281,711.90, $527,319.39 and $14,412.70 to object codes 6200, 6300 and 6400 respectively that were not approved in the budget as amended. As a result, auditors questioned $823,443.99 charged to the grant.

Recommendation #1. The subrecipient should not expend grant funds from class/object code(s) not approved in the program budget summary of the grant application as amended. A budget amendment is required to add a class/object code not previously budgeted on the Program Budget Summary.

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 # 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 observations 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 report all vendors that received payments exceeding $25,000 from grant funds within the reporting period. Specifically, auditors examined the detailed general ledger and noted payments exceeding $25,000.00 were made to several vendors that were not reported in the quarterly report submitted to TEA for the quarter ended March 31, 2010.

(2) The subrecipient's calculation of FTEs did not match with the number of FTEs the subrecipient reported on the quarterly report it submitted for the quarter ended March 31, 2010

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 agreements.

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Attachment C: Subrecipient's Response to Auditors' Report

_____ (Please Initial) The subrecipient concurred with the auditors' observations, general conclusion, assessment of risk and recommendation. Additionally, the subrecipient enclosed the attached proposed corrective action to address the auditors' observations. Refer to Attachment D.

_____ (Please Initial) The subrecipient did not concur with the auditors' observations, general conclusion, assessment of risk and recommendation and enclosed a written response discussing its disagreement. Insert your response as Attachment E. The subrecipient also enclosed copies of documents that support its disagreement with the auditors' preliminary letter of findings. Insert supporting documents as Attachment(s) F through ____.

_____ (Please Initial) The subrecipient concurred with only the observations noted below and proposed the corrective actions noted on Attachment D to this response. However, the subrecipient did not concur with the other observations, as noted below, and has enclosed a written response discussing its disagreement. Insert your response as Attachment E. In this latter regard, the subrecipient has also enclosed copies of documents that support its disagreement with the contents of the preliminary letter of findings. Insert supporting documents as Attachment(s) F through ____.

Finding	Subrecipient Concurred	
	Yes	No
01		
02		

I, the undersigned, attest and affirm that our response above and the supporting attachments, _____ through _____, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated September 27, 2010 from the Division of Financial Audits.

_____ _____

Superintendent's Signature Date Signed

September 27, 2010

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Attachment D: Subrecipient's Proposed Corrective Action

Finding: _____

Actions taken or planned for correction:

_____

_____

_____

_____

_____

_____

Responsibilities and timetable for the above actions:

_____

_____

_____

_____

_____

_____

Fiscal Contact Signature (Preparer)	Date Signed
Superintendent's Signature (Approver)	Date Signed