November 10, 2010

Rev-124-241-902-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mr. Garland Calhoun
Superintendent
East Bernard ISD
723 College St.
East Bernard, TX 77435

Subject: Letter of Observations

Dear Mr. Calhoun:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001241902) grant (the grant) awarded to East Bernard ISD (CDN: 241-902) (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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Superintendent
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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 observations, auditors concluded that the subrecipient did not generally comply with the 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.

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East Bernard ISD

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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 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 the following observation.

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 documentations in support of the quarterly reports filed with TEA.

(1) 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:

- Employee's gross payroll cost and percentage of payroll costs funded by the grant during the quarter.
- The number of extra duty hours and the amount of extra duty wages funded by the grant during the quarter(if applicable).

Recommendation #1. 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.

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