

February 15, 2011

Rev-125-241-906-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mr. Andrew Peters  
Superintendent  
Louise ISD  
P O Box 97  
Louise, TX 77455-0097

Subject: Letter of Observations

Dear Mr. Peters:

Auditors from the Division of Financial Audits conducted a review of the Title XIV ARRA grant (NOGA ID: 10557001241906) (the grant) awarded to Louise ISD (CDN: 241906) (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 adequately implemented 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). However, the subrecipient did not adequately demonstrate its compliance with the infrastructure investment project 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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**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 the following observations.

1. The subrecipient maintained a detailed general ledger that complied with FASRG and 34 CFR 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 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 that the subrecipient accurately compiled, calculated and reported the data on the quarterly report.

**Observations on ARRA Infrastructure Expenditures:** Auditors reviewed documentation in support of the infrastructure expenditures of grant funds and noted the following observations.

**Observation #1.** The subrecipient expended SFSF grant funds for infrastructure investment projects (modernization, renovation, and repair of public school facilities). However, the subrecipient did not demonstrate that it complied with all laws, rules and regulations promulgated in the American Recovery and Reinvestment Act of 2009 for infrastructure investment projects.

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

- (1) Auditors examined the subrecipient's documentation in compliance with certification reporting requirements and noted that subrecipient did not comply with ARRA Title XV, Subtitle A, Section 1511 of ARRA which requires recipients of ARRA infrastructure investment funds to certify that their infrastructure investment has received the full review and vetting required by law prior to drawdown of funds for infrastructure project. The subrecipient was required to post this certification on the subrecipient's Web site along with a link to Recovery.gov. with the required data and enter the data in TEA's Expenditure Reporting (ER) system to report that the certification form had been completed and posted on the LEA's (or ESC's) Web site.

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- (2) Auditors examined the documentation in reference to subrecipient's infrastructure project and noted that the subrecipient did not demonstrate that it complied with Buy American Act provisions, section 1605 of ARRA which required the subrecipient to ensure that all iron, steel and manufactured goods used in the infrastructure investment project were produced in the United States.
- (3) Auditors examined the documentation in reference to subrecipient's infrastructure project and noted that the subrecipient did not demonstrate that it complied with the Davis Bacon Act, Section 1606 Wage Rate Requirement of ARRA which required the subrecipient to ensure that under the provisions of the Act, contractors or their subcontractors are to pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on projects of a similar character.

### **Conclusion**

The subrecipient's internal control weaknesses adversely affected its ability to comply with infrastructure investment project reporting requirements of ARRA.

**Required Action:** Due to the noncompliance with infrastructure investment project requirement of ARRA, auditors recommend that the subrecipient file for a budget amendment with TEA to remove the infrastructure project from SFSF grant and reclassify the project cost to another funding source. Please refer to TEA correspondence dated January 10, 2011 on the TEA web site for further guidance on removing infrastructure project from the grant <http://ritter.tea.state.tx.us/taa/arra01102011>. Failure to take any action on your behalf will result in questioned costs of the total project.