

September 28, 2010

Rev-129-253-901-06-2010

VIA UNITED STATES CERTIFIED MAIL

Mrs. Norma G. Garcia
Superintendent
Zapata County ISD
PO Box 158
Zapata, TX 78076-0158

Subject: Final Letter of Observations

Dear Mrs. Garcia:

Auditors from the Division of Financial Audits conducted a review of the ARRA Title XIV State Fiscal Stabilization Fund (NOGA ID #10557001253901) grant (the grant) awarded to Zapata County ISD (CDN: 253901) (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. Included with this letter are two attachments that describe the auditors' observations and their recommendations. This correspondence and its attachments constitute a 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. 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 generally complied with the certain fiscal 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.

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' Findings

Observations on Subrecipient's Administration of ARRA awards: Auditors examined 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. Auditor did not note any instances of noncompliance and/or weaknesses in internal controls.

Observations on ARRA Reporting Requirements: Auditors reviewed documentation in support of the quarterly report filed for the quarter ended March 31, 2010. Based on their review of the documents provided by the subrecipient in response to their correspondence and other inquiries, auditors made the following observation.

Observation #1. The subrecipient may not have reported payments exceeding \$25,000.00 to vendors on a quarterly report filed by the subrecipient for the quarter ended March 31, 2010 to comply with the reporting requirements promulgated in Section 1512 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) Auditors examined the detailed general ledger and noted that expenditures totaling \$331,658.60 were reclassified to the grant for Just Energy during the quarter ended March 31, 2010. This amount reclassified may be based on accumulation of past expenditures paid to Just Energy. However, the subrecipient should ensure that all payments exceeding \$25,000 made to vendors from the original funding source that were subsequently transferred to ARRA grant funds should be reported on the quarterly report filed by the subrecipient.

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