

August 22, 2011

VIA UNITED STATES CERTIFIED MAIL

Mr. Heriberto Villarreal
Superintendent
Santa Rosa Independent School District
Hwy 107 and E. Cruz Street
Santa Rosa, TX 78593

Subject: Preliminary Letter of Observations and Findings

Dear Mr. Villarreal:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Santa Rosa Independent School District (CDN: 031-914) (the subrecipient). The review focused on the grants awarded to the subrecipient pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). The review was limited to the representations and records provided by the subrecipient in response to the auditors' formal correspondence dated December 28, 2010 and during the onsite visit conducted by auditors on February 10, 2011. Your response to the preliminary letter of observations and findings dated August 8, 2011 has been incorporated into the body of this final letter of observations and findings 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 Mike Scott at (512) 463-9095.

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Yolanda Cantu, Director, Division of Formula Grants Administration
Rita Chase, Director, Division of Financial Audits
Cory Green, Senior Director, Division of NCLB Program Coordination

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Background

As discussed in their notification letter dated December 28, 2010, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to Santa Rosa Independent School District (CDN: 031-914) pursuant to ARRA. Due to heavy emphasis on accountability and transparency on ARRA funded grants, the primary focus of this review was to inquire about the subrecipient's fiscal controls in effect over ARRA funded awards and about the activities, functions, programs and services implemented by the subrecipient to provide a reasonable assurance of compliance with laws, rules, regulations, and guidance pertaining to the ARRA grants awarded to the subrecipient. Generally, auditors limited their review to the subrecipient's records supporting its compliance with grant requirements and accounting for its receipt and expenditures of grant funds of ARRA funded grants awarded to the subrecipient. As of November 23, 2010 the subrecipient filed expenditure reports to claim a total of \$1,511,021.78 in expenditures from the total of \$2,064,601.00 ARRA funded grants awarded to the subrecipient.

As of the notification letter dated December 28, 2010 the subrecipient was awarded a total amount of \$2,064,601.00 grant funds for five ARRA grants (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to Santa Rosa ISD as of November 23, 2010			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10551001031914	Title I, Part A – ARRA/STIMULUS	\$585,996.00	\$526,376.38
10553001031914	ARRA - Title II, D Technology	\$18,303.00	\$16,423.57
10557001031914	ARRA Title XIV SFSF	\$766,377.00	\$766,377.00
11557001031914	ARRA Title XIV SFSF	\$643,925.00	\$164,567.25
10551004031914	Title I, SIP – ARRA/STIMULUS	\$50,000.00	\$37,277.58
Total Amount Awarded		\$2,064,601.00	\$1,511,021.78

General Observations

Based upon their review of the subrecipient's records, auditors observed the following:

- 1. 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 policies and procedures, quality of data, budgetary control of ARRA grants, cash management, time and effort reporting requirements and the

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use of ARRA funds. Auditors observed that in certain instances the subrecipient did not maintain 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 Office of Management and Budget (OMB) Circular A-87. Refer to Finding #1 and Finding #2 and Internal Controls - General Observations in the body of the letter.

- 2. Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports filed by the subrecipient and the documentation in support of the data accumulated and reported to TEA and noted that it did not demonstrate that it complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009. Refer to Observation #3 in the body of the letter.
- 3. Observations on ARRA Infrastructure Expenditures:** The subrecipient was not awarded grant funds for infrastructure investment projects (modernization, renovation, and repair of public school facilities).

Overall Conclusion

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), Office of Management and Budget (OMB) Circular A-87 and American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' observations and findings are discussed in the body of the letter.

Questioned Costs

\$0.00

Recommendations

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

Summary of subrecipient's Response

The subrecipient concurred with the auditors' findings and subsequently provided corrective action plans. See attachment A and attachment B.

Auditor's Addendum

Auditors reviewed the subrecipient's response dated August 8, 2011 to the Preliminary Letter of Observations and Findings and the actions taken or planned for correction submitted with the response. Auditors concur with the subrecipient's responses and the proposed action plans to address Finding #1 and Finding #2 reported in the Preliminary Letter of Observations and Findings. Auditors adjusted the questioned costs accordingly.

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Auditors' Observations and Findings

Observations on Subrecipient's Administration of ARRA awards:

Finding # 1: Auditors noted that in several instances, the subrecipient failed to maintain adequate and sufficient source documentation to support the payroll costs charged to the grant funds.

Statements of Fact

Auditors selected a sample of four (4) payroll transactions including; two (2) transactions from Title I, Part A – ARRA (fund code 285) and two (2) transactions from Title XIV, SFSS - ARRA (fund code 266). Auditors examined the documentation in support of the payroll costs charged to the applicable grant (refer to Appendix A).

Specifically, auditors observed the following instances of noncompliance and/or weaknesses in internal controls.

1. In one instance, the employee was solely funded from the applicable grants. However, the subrecipient did not maintain a periodic certification to support the payroll costs charged to the grant as per the requirements promulgated in OMB A-87. Accordingly, auditors questioned payroll costs of \$3,027.25 charged to the grant (refer to item #1 of Appendix A).
2. None of the employees selected for testing maintained a signed and dated job description on file.

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the four (4) payroll transactions tested, four (4) transactions failed various attributes that would have demonstrated compliance with OMB circular A-87 and 34 CFR 80.20(b)(6) – Source Documentation. As a result, auditors questioned costs of \$3,027.25 (refer to Appendix A).

Conclusion

The subrecipient's failure to implement controls and maintain source documentation to support the payroll costs as per the time and effort requirements promulgated in OMB Circular A-87 placed grant funds at risk of being misused and impeded the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$3,027.25

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Recommendations

The subrecipient should monitor its payroll processes and time and effort reporting requirements in order to comply with OMB Circular A-87 and to provide reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

Subrecipient's Response

The subrecipient concurred with the auditors' finding and subsequently provided periodic certifications. See Attachment A and Attachment B.

Auditor's Addendum

Auditors concur with the subrecipient's response and have reviewed the submitted periodic certifications. As a result, the questioned cost was adjusted from \$3,027.25 to \$0.00. See Attachment A and Attachment B

Finding # 2: The subrecipient failed to develop and implement comprehensive administrative procedures that identified the processes and forms that it would use to ensure compliance with the time and effort requirements promulgated in OMB circular A-87.

Statements of Fact

Auditors reviewed the subrecipient's policies and procedures that were intended to demonstrate the subrecipient's compliance with the requirements promulgated in OMB A-87 and noted the following:

1. The subrecipient did not maintain policies and procedures describing the circumstances under which personnel will be required to prepare periodic certifications or personnel activity reports to comply with the time and effort requirements promulgated in OMB Circular A-87.
2. The subrecipient's policies and procedures did not address or prescribe the form and content of a periodic certification or personnel activity report.
3. The subrecipient's policies and procedures did not require that the employee disclose an after-the-fact distribution of 100 percent of the actual time spent on each activity and each fund source on the personnel activity reports.
4. The subrecipient's policies and procedures did not address or prescribe the frequency of the periodic certifications (e.g., semi-annually) and personnel activity reports (e.g., monthly) to coincide with each pay period.
5. The subrecipient's policies and procedures did not address or require each job description describe the work performed by the employee for each program/fund source. Additionally, the subrecipient's policies and procedures did not require each employee

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and their immediate supervisor sign and date a detailed job description, if applicable.

6. The subrecipient's policies and procedures did not address the requirement for the allocation of payroll costs to federal awards based upon the actual time reported by each employee paid from a federal award.

Conclusion

The subrecipient's failure to implement and comply with time and effort requirements promulgated in OMB Circular A-87 may place grant funds at risk of being misused and impeded the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

Recommendation

The subrecipient should implement effective time and effort reporting requirements to comply with OMB Circular A-87, to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

Subrecipient's Response

The subrecipient concurred with the auditors' finding and subsequently provided a corrective action plan. See attachment A and attachment B.

Auditor's Addendum

Auditors concur with the subrecipient's response and the proposed corrective action plan.

Internal Controls: General Observations

Observation #1: Auditors noted that of the 7 non-payroll transactions tested, one transaction for employee reimbursement for supplies purchased on a credit card showed the purchase order issued after the invoice date.

Observation #2: Auditors observed that the subrecipient did not calculate excess costs for the education of elementary and secondary school students with disabilities that are in excess of the average annual per student expenditure in the LEA during the preceding school year, in accordance with 34 CFR 300 Appendix A.

Recommendation #1. The subrecipient should implement internal controls that give adequate

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guidance for control and provide reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

Recommendation #2. The subrecipient must annually calculate excess costs for the education of elementary and secondary school students with disabilities that are in excess of the average annual per student expenditure in the LEA during the preceding school year. Except as otherwise provided, amounts provided to an LEA under Part B of the Act may be used only to pay the excess costs of providing special education and related services to children with disabilities. An LEA must spend at least the average annual per student expenditure on the education of an elementary school or secondary school child with a disability before funds under Part B of the Act are used to pay the excess costs of providing special education and related services. Section 602(8) of the Act and §300.16 require the LEA to compute the minimum average amount separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools.

Required Action: In response to this observation, the subrecipient should submit the completed Excess Cost worksheet provided during the on-site review.

Observations on ARRA Reporting Requirements:

Observation #3: Auditors observed that the subrecipient did not have written guidance or a documented methodology for accurately calculating and reporting all FTEs on the Section 1512 Quarterly Reports.

Recommendation #1. The subrecipient should update and/or implement adequate internal controls and written guidance to ensure reasonable assurance that it is complying with reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements.

Recommendation #2. The estimate of the number of jobs required by the ARRA should be expressed as FTEs, which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient within the reporting quarter. These FTEs are then adjusted to count only for the portion of the job funded by ARRA. Refer to the following web-link for Section 1512 reporting requirements of ARRA.
<http://www.tea.state.tx.us/arrastimulus/reporting/>

Subrecipient's Response

The subrecipient concurred with the auditors' finding and subsequently provided a corrective action plan.

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Auditor's Addendum

Auditors concur with the subrecipient's response and the proposed corrective action plan.

Summary of Audit Scope, Objectives and Methodology

Objectives, Scope, Methodology and Timeline

The review focused on the following objectives.

- Whether the subrecipient developed written policies and procedures for the effective control of ARRA funds.
- Whether the subrecipient's financial records accurately and completely accounted for the obligation, receipt, expenditure, and use of the ARRA grant funds.
- Whether financial, program, and other reports filed by the subrecipient were fairly presented and properly supported by the subrecipient's source documentation.

Scope

Consistent with the objectives of the review identified above, auditors limited the scope of their work to the subrecipient functions and activities implemented in support of the intent and objectives of the grant noted in the Table B below for the grant periods indicated.

TABLE B Individual NOGAs Selected for Audit			
NOGA ID	NOGA Description	Begin Date	End Date
10551001031914	Title I, Part A – ARRA/STIMULUS	06/25/2009	09/30/2011
10553001031914	ARRA - Title II, D Technology	11/11/2009	09/30/2011
10557001031914	ARRA Title XIV SFSF	09/18/2009	09/30/2011
11557001031914	ARRA Title XIV SFSF	09/01/2010	09/30/2011
10551004031914001	ARRA Title I SIP	10/15/2009	09/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on Thursday, February 10, 2011. Subsequent to their onsite visit, auditors continued to perform desk audit procedures. Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. In general, auditors performed the following audit procedures.

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1. Auditors researched the federal and state laws and rules and the grant and program requirements applicable to the grants listed in Table A.
2. Auditors reviewed organizational charts and local policy and procedure manuals and other authoritative records to understand the subrecipient's organizational structure and identify internal controls and processes.
3. Auditors reviewed financial and accounting records created and maintained by the subrecipients to ensure that included budgetary data consistency with budget approved by TEA for each grant and maintained financial accounting system that enabled the subrecipient personnel to compare budgeted amounts for each grant to the expenditures incurred and outlays of grant funds.
4. Auditors examined the documentation in support of quarterly reports filed by the subrecipient pursuant to Section 1512 of ARRA reporting requirements to ensure accuracy of data reported to TEA.
5. Auditors examined documentary evidence for post-payment of selected ARRA fund expenditures including, but not necessarily limited to; payroll records, time and effort records, financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, contracts, and policies and procedures.
6. Auditors examined the documentation in support of Infrastructure project (if applicable) paid with ARRA funds to ensure that the subrecipient complied with certification requirements pursuant to section 1511 of ARRA, Buy American provisions of ARRA pursuant to section 1605 of ARRA and Davis Bacon Act pursuant to section 1606 of ARRA.
7. Auditors interviewed subrecipient personnel and other agents about the activities, functions, programs and services implemented for the grant and the records created and maintained for the grant.
8. Auditors conducted an onsite visit and completed work programs and the related working papers.
9. Auditors applied certain criteria including, but not necessarily limited to, the requirements discussed in the Financial Accountability System Resource Guide, Title 34 Code of Federal Regulations 80.20, the American Recovery and Reinvestment Act of 2009, PL-111-5 (Recovery Act), OMB Circulars A-87, and A-133, and the applicable request for application and approved grant application, as amended.
10. Auditors examined the subrecipient's Excess Cost worksheet and reviewed the calculations as promulgated by 34 CFR 300 Appendix A.

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Acronyms and Abbreviations Used In This Letter

Acronym	Acronym Description
ARRA	American Recovery and Reinvestment Act of 2009
CDN	County District Number
CFR	Code of Federal Regulations
34 CFR	Title 34 of the CFR Note: This acronym is usually followed by the section of the CFR referenced in the report. For instance, section 80.20 of 34 CFR is referenced as 34 CFR 80.20.
FASRG	Financial Accountability System Resource Guide
ID	Identification
IDEA	Individuals with Disabilities Education Improvement Act of 2004
ISD	Independent School District
NCLB	No Child Left Behind Act of 2001
NOGA	Notice of Grant Award
OMB	Office of Management and Budget
P.L.	Public Law
SFSF	State Fiscal Stabilization Fund
TEA	Texas Education Agency
TEC	Texas Education Code
Title I, Part A	Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended

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Appendix A						
Item No.	Fund & Object code	Transaction Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
Title I, Part A – ARRA, NOGA ID: 10551001031914 (Fund 285) : Payroll						
1	285-6119	8/20/2010	Lopez, Michele A.	\$3,027.25	\$3,027.25	C, G
2	285-6118	6/17/2010	Ortega, Rene A.	\$75.00	\$0.00	C
Title XIV – ARRA-LEA, NOGA ID: 10557001031914 (Fund 266) : Payroll						
3	266-6119	9/20/2010	De la Fuente, Dale	\$3,400.62	\$0.00	C
4	266-6119	3/12/2010	Mendoza, Steven J.	\$6,944.64	\$0.00	C
Total Questioned Costs					\$3,027.25	

Payroll Attributes Tested

- A. Position(s) approved in the budget.
- B. Position supported by laws rules regulations and grant application.
- C. Signed and dated job description provided.
- D. Salary authorization and Personnel Action form provided.
- E. Time sheet provided for extra duty/substitute pay claimed.
- F. Signed supplemental contract that stipulated program, e.g. Title I work activities performed by the teacher for tutoring/extra duty pay.
- G. Periodic Certification provided for 100% funded employee.
- H. Activity Report provided for Split funded employees.
- I. After-the-fact distribution of work performed. Payroll records match with activity reports.

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Appendix B						
Item No.	Ref. Number	Trans. Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
Title I, Part A – ARRA, NOGA ID: 10551001031914 (Fund 285) : Non-payroll						
1	PO 529203	8/11/2010	Arguelles, Reuben	\$95.70	\$0.00	D
2	PA 528900	8/4/2010	CDWG, Inc.	\$1,214.00	\$0.00	
3	PO 530395	12/17/2010	FASE Productions	\$34.90	\$0.00	
4	PO 529137	8/12/2010	Follett Software Co.	\$2,036.72	\$0.00	
Title II, Part D – Technology ARRA, NOGA ID: 10553001031914 (Fund 279) : Non-payroll						
5	PO 527195	2/18/2010	Tiger Direct, Inc.	\$759.99	\$0.00	
6	PO 526947	3/4/2010	INOVA Center, Ltd.	\$2,130.00	\$0.00	
7	PO 529063	8/27/2010	Education 2000	\$2,169.54	\$0.00	
Total Questioned Costs					\$0.00	

Attributes Tested

Test of Internal Controls

- A. The accounting record included an original and complete internal accounting document, i.e. executed contract, purchase order, payment authorization form, expense reimbursement form, travel reimbursement form, payroll schedule, payroll authorization form, Form W-4, employment contract, etc.
- B. The accounting record included an original and complete third party document, i.e. utility billing statement, itemized receipt, itemized invoice, bank deposit.
- C. The accounting record indicated that the transaction was approved by an authorized individual.
- D. The purchase order was issued prior to the date of the vendor’s invoice.

Compliance with Law, Rule, and/or Regulation

- E. The item was approved in the budget.
- F. The activity was allowed as per the applicable program requirements.
- G. The activity was noted in District/Campus improvement plan as applicable.
- H. The amount was obligated within the grant period.
- I. Capital outlay: did the purchase comply with ARRA reporting requirements.

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Attachment A: Subrecipient's Response to Auditors' Report

Attachment A: Subrecipient's Response to Auditors' Report

HW
(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 B.

(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 C. The subrecipient also enclosed copies of documents that support its disagreement with the auditors' preliminary letter of findings. Insert supporting documents as Attachment(s) D through ____.

(Please Initial) The subrecipient concurred with only the observations noted below and proposed the corrective actions noted on Attachment B 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 C. 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) D through ____.

Finding	Subrecipient Concurred	
	Yes	No
01	✓	
02	✓	

I, the undersigned, attest and affirm that our response above and the supporting attachments, 01 through 02, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated July 29, 2011 from the Division of Financial Audits.

HW

Superintendent's Signature

8/9/11

Date Signed

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Attachment B: Subrecipient's Proposed Corrective Action

Attachment B: Subrecipient's Proposed Corrective Action

Finding: 01

Actions taken or planned for correction:

We have obtained our semi-annual certification for employee in
question and are submitting it. We will continue to obtain semi-
annual certification for all required personnel.

Responsibilities and timetable for the above actions:

Employee, Principal, Federal Programs Director, on semi-
annual basis.

Fiscal Contact Signature
(Preparer)

Date Signed

Superintendent's Signature
(Approver)

Date Signed

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Attachment B: Subrecipient's Proposed Corrective Action

Finding: 02

Actions taken or planned for correction:

We have developed and implemented a federal procedures manual
that addresses proper procedures for semi-annual
certifications.

Responsibilities and timetable for the above actions:

Federal Programs Director, Chief Financial Officer,
Superintendent and Principal.

Fiscal Contact Signature
(Preparer)

Date Signed

Superintendent's Signature
(Approver)

Date Signed