

June 20, 2011

VIA UNITED STATES CERTIFIED MAIL

Dr. Marla M. Guerra
Superintendent
South Texas Independent School District
100 Med High Drive
Mercedes, TX 78570

Subject: Final Letter of Observations and Findings

Dear Dr. Guerra:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to South Texas Independent School District (CDN: 031-916) (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 8, 2011. Your response to the preliminary letter of observations and findings dated June 1, 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
Kathy Clayton, Senior Director, Division of IDEA Coordination

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Cory Green, Senior Director, Division of NCLB Program Coordination
Earin Martin, Chief Grants Administrator

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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 South Texas Independent School District (CDN: 031-916) 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 October 29, 2010 the subrecipient filed expenditure reports to claim a total of \$1,565,883.92 in expenditures from the total of \$2,110,801.00 ARRA funded grants awarded to the subrecipient.

As of the notification letter dated December 28, 2010, the subrecipient was awarded a total amount of \$2,110,801.00 grant funds for four ARRA grants (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to South Texas ISD as of October 29, 2010			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001031916	IDEA B Formula – ARRA-LEA	\$557,645.00	\$171,072.65
10551001031916	Title I, Part A – ARRA/STIMULUS	\$670,730.00	\$537,223.02
10553001031916	ARRA - Title II, D Technology	\$20,950.00	\$20,869.04
10557001031916	ARRA Title XIV SFSF	\$861,476.00	\$836,719.21
Total Amount Awarded		\$2,110,801.00	\$1,565,883.92

General Observations:

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

- 1. Observations on ARRA Infrastructure Expenditures:** The subrecipient expended ARRA Title XIV SFSF 2009-2010 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. Refer to Finding #1 in the body of the letter.

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- 2. 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 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 #2, Finding #3, and Finding #4 and the internal controls observations in the body of the letter.
- 3. Observations on ARRA Reporting Requirements:** As of the time of the on-site review, the subrecipient had not expended ARRA grant funds on payroll expenditures. Therefore, the subrecipient was not required to file quarterly reports and could not demonstrate that it complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.

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 June 1, 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 through Finding #4 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 ARRA Infrastructure Expenditures:

Finding # 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.

Statement of Fact

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

- a) Auditors examined the subrecipient's documentation in compliance with certification reporting requirements and noted that the 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 as per the following.
 1. As a part of the terms and conditions of the grants pursuant to ARRA, TEA requires the local educational agency's (LEA's) chief executive officer to accept responsibility for ensuring (i.e., to certify) that the infrastructure investment is an appropriate use of taxpayer dollars.
 2. Post the form on the subrecipient's web site along with a link to Recovery.gov with the required data.
 3. Enter TEA's Expenditure Reporting (ER) system and report that the certification form has been completed and posted on the LEA's (or ESC's) Web site.
 4. Before LEAs receive (draw down) infrastructure investment funds made available through ARRA, the Section 1511 certification must be completed, posted to the LEA's (or ESC's) web site , and reported to TEA in ER.
- b) 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 pursuant to 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.
- c) 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 provisions pursuant to Section 1606 of ARRA which requires that all contractors and subcontractors performing on federal contracts (and contractors or subcontractors performing on federally assisted contracts under the related Acts) in excess of \$2,000 pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits

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listed in the contract's Davis-Bacon wage determination for corresponding classes of laborers and mechanics employed on similar projects in the area. Davis-Bacon labor standards clauses must be included in covered contracts.

Conclusion

Based upon their review of the subrecipient's records, auditors concluded that the expenditures of the infrastructure project charged to ARRA Title XIV SFSF during the fiscal year 2009-2010 did not comply with the American Recovery and Reinvestment Act of 2009 (ARRA). During the onsite visit, auditors recommended to the subrecipient to amend the program budget which would reclassify the infrastructure project to an appropriate funding source.

Subsequent to the onsite visit, auditors examined the current grant application of ARRA Title XIV SFSF (2009-2010) as amended by the subrecipient as of March 9, 2011 and noted that as per auditors' recommendation, the subrecipient has amended the program budget to remove the infrastructure investment project from the grant. As a result, the questioned cost was adjusted from \$770,523.00 to \$0.00.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

Recommendation

The subrecipient should update and/or implement adequate internal controls to ensure reasonable assurance that it is complying with reporting requirements of ARRA, 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.

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Observations on Subrecipient's Administration of ARRA awards:

Finding # 2: In several instances, the subrecipient failed to maintain adequate and sufficient source documentation to support the expenditures charged to the grants and reported to TEA as the basis for its reimbursement from the applicable grant program.

Statements of Fact

Auditors selected a total sample of eight (8) non-payroll transactions including; three (3) transactions from IDEA-B Formula – ARRA (fund code 283) and five (5) transactions from Title I, Part A – ARRA (fund code 285) and examined the documentation in support of the expenditures charged to the applicable grant (refer to Appendix A).

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

1. Auditors noted that in one instance the subrecipient disbursed Title I, Part A ARRA grant funds for petty cash reimbursement to an employee for food and drinks for Saturday tutorial. However, the subrecipient did not provide supporting documentation demonstrating that the expenditure charged to the grant addressed the activities, goals and objectives of program outlined in the district/campus improvement plan to meet the intent and purpose of the program. Accordingly, auditors questioned the \$332.42 charged to the grant (refer to item #5 of Appendix A).
2. In several instances the purchase orders were issued after the date of the invoice or other payment request was received (refer to item #1, item #3 through item #5, and item #8 of Appendix A).

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the eight (8) non-payroll transactions tested, five (5) transactions failed various attributes that would have demonstrated compliance with 34 CFR 80.20 (b)(5)(6) and Public Law 107-910. Accordingly, auditors questioned \$332.42 in non-payroll costs charged to the grant (refer to Appendix A).

Conclusion

The subrecipient's failure to implement an adequate system of internal controls 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

\$332.42

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Recommendation

The subrecipient should monitor the effective implementation of its internal controls over federal awards by ensuring that the individual responsible for the final approval of expenditures (i.e. purchase order, travel itineraries) and disbursement reviews the accounting records for each individual transaction to ensure that the subrecipient's internal controls were properly maintained.

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.

Finding # 3: The subrecipient drew down grant funds in excess of expenditures recorded in the general ledger.

Statements of Fact

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

1. Auditors observed that as of October 29, 2010, the subrecipient drew down \$836,719.21.00 in ARRA Title XIV SFSF grant funds (fund code 266) for the fiscal year 2009-2010. However, the subrecipient recoded expenditures totaling \$770,523.00 in the general ledger resulting in a variance of \$66,196.21. The subrecipient refunded the overpayment of \$51,756.60 to TEA on December 14, 2010 and charged the remainder or \$14,439.61 to the grant as an indirect cost which was not approved in the program budget as amended.
2. Auditors observed that the program budget as amended approved for ARRA Title XIV SFSF grant for the fiscal year 2009-2010 did not include an approval for indirect cost charged to the grant. Therefore, the \$14,439.61 charged to grant was not allowed.

Conclusion

Subsequent to the onsite visit, auditors examined the current grant application of ARRA Title XIV SFSF (2009-2010) as amended by the subrecipient as of March 9, 2011 and noted that the program budget as amended included \$15,939.00 budgeted for the indirect cost charged to the grant.

Finding Type

Compliance/Internal Control

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Questioned Costs

\$0.0

Recommendation

The subrecipient should monitor the effective implementation of its internal controls over federal awards by ensuring that the individual responsible for the final approval of requests for reimbursements reviews the budget and accounting records for each ARRA grant to ensure that the grant funds are expended as per approved budgets.

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.

Finding # 4: 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'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.
2. 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.
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.

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5. The subrecipient's policies and procedures did not require preparation of an internal accounting record for each position that identified the individual employed, their functional title, and the amount of their salary and other compensation charged to each local, state or federal fund source/program.
6. The subrecipient's policies and procedures did not address or prescribe the form and content of a periodic certification or personnel activity report.
7. 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.
8. The subrecipient's policies and procedures did not address or require that the personnel department authorize all changes to the payroll master file.
9. The subrecipient did not have an appropriate and adequate time and effort reporting system, including proper separation of duties, review and approval of time worked, payment rates, semi-annual certifications, and verify that time worked is properly charged to the correct cost accounting code(s).

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

\$0.0

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.

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Internal Controls: General Observations

Auditors noted that the subrecipient did not maintain adequate policies and procedures in order to comply with the standards for financial management systems promulgated at 34 CFR 80.20. Specifically, auditors observed that the subrecipient did not maintain locally developed policies and procedures which described the following.

Observation #1: The subrecipient lacks policies and procedures for the preparation, review, approval and submission of expenditure reports for federal awards.

Observation #2: Auditors noted that the subrecipient used a credit card for expenditures of grant funds (for example refer to item #4 of Appendix A). However the subrecipient did not have written policies and procedures that describe the process that subrecipient personnel are required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit. Specifically, the subrecipient lacked the following policies and procedures.

- a) The subrecipient did not have written policies and procedures that describe the use of corporate accounts (e.g., VISA) and/or revolving lines of credit (e.g., Walmart account) for the purchase of supplies and materials and miscellaneous operating costs, including travel expenses.
- b) The subrecipient did not have written policies and procedures that address or identify who was authorized to use this type of account.
- c) The subrecipient did not have written policies and procedures that established criteria which identify to whom purchase cards are distributed and how control is maintained over the account(s) (e.g., the subrecipient requires the business manager to maintain the charge card in a safe deposit box in the business office and a log of who used the charge card and the amount that person is authorized to charge).
- d) The subrecipient did not have written policies and procedures that require subrecipient personnel file original itemized third-party invoices or receipts and a standard internal accounting form (e.g., payment authorization form, purchase order or reimbursement form).
- e) The subrecipient did not have written policies and procedures that require purchase cardholders to attend periodic training on the proper usage of purchase cards and required record-keeping.
- f) The subrecipient did not have written policies and procedures that require the monitoring of corporate account and/or revolving line of credit activities to identify inappropriate use.

Observation #3: The subrecipient lacks policies and procedures that describe the process that subrecipient personnel must follow for the expenditure of grant funds for supplies and materials and miscellaneous operating costs. The subrecipient lacks written guidance such as; a. procedures that describe the third-party documentation (e.g., invoices, receipts) required to support the disbursement of funds, b. procedures that require invoices include the detail of the work that was performed or items purchased, c. procedures that require subrecipient personnel

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document the receipt of goods on the purchase order, receiving report, or other record.

Observation #4: The subrecipient used grant funds for petty cash. The subrecipient lacks the following policies and procedures for the use of petty cash with the disbursement of grant funds.

- a) The subrecipient lacks written guidance such as a clearly defined petty cash purchase dollar limit.
- b) Requirement that reconciliations be performed regularly on petty cash.
- c) Clearly define what types of purchases are allowable using petty cash.
- d) Identify the individuals responsible in the program area and in the business office for reviewing and approving all purchase orders and invoices to ensure that the related costs (using petty cash) may be charged to grants.

Recommendation #1. The subrecipient must develop and implement written procedures and internal controls for cash management that give reasonable assurance that only the actual amount of cash expended will be requested, and the cash received will be paid out within three days of receiving it. Procedures should evidence that the grantee plans carefully for cash flows for grant projects and reviews cash requirements before each request for payment. The subrecipient must develop and implement written procedures and internal controls for the preparation, review, approval and submission of expenditure reports for federal awards

Recommendation #2. The subrecipient must develop and implement written procedures and internal controls for the expenditure of grant funds for supplies and materials and miscellaneous operating costs. Additionally, the subrecipient must develop and implement written procedures and internal controls that give adequate guidance for corporate accounts and/or revolving lines of credit and the control and use of petty cash.

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Summary of Audit Scope, Objectives and Methodology

Objectives

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
10554001031916	IDEA B Formula – ARRA-LEA	6/30/2009	9/30/2011
10551001031916	Title I, Part A – ARRA/STIMULUS	6/30/2009	9/30/2011
10553001031916	ARRA - Title II, D Technology	10/30/2009	9/30/2011
10557001031916	ARRA Title XIV SFSF	9/28/2009	9/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on Tuesday, February 8, 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.

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.

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3. Auditors reviewed financial and accounting records created and maintained by the subrecipients to ensure that included budgetary data consistence 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.

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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.	Ref. Number	Trans. Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA B Formula – ARRA-LEA, NOGA ID: 10554001031916 (Fund 283) Non-payroll						
1	PO 003141	6/8/2010	Jacqueline Reposh	\$1,500.00	\$0.00	D
2	PO 000392	4/7/2010	Dell Marketing LP	\$35,088.96	\$0.00	
3	PO 000305	2/4/2010	TIVA	\$270.00	\$0.00	D
Title I, Part A – ARRA, NOGA ID: 10551001031916 (Fund 285) : Non-payroll						
4	PO 008044	10/28/2009	WalMart Community	\$598.79	\$0.00	D
5	PO 001737	3/24/2010	Ana Castro	\$332.42	\$332.42	D, F
6	PO B33862	12/17/2009	Microscope World	\$8,993.00	\$0.00	
7	PO 002305	6/8/2010	Oriental Trading	\$27.88	\$0.00	
8	PO 001427	4/7/2010	Kick-Off Program	\$2,275.00	\$0.00	D
Total Questioned Costs					\$332.42	

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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FINANCIAL AUDITS DIVISION

Attachment A: Subrecipient's Response to Auditors' Report

 ✓ 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 ____.

 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		
03		
04		

I, the undersigned, attest and affirm that our response above and the supporting attachments, 1 through 4, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated May 6, 2011 from the Division of Financial Audits.

Marla M. Guerra
Superintendent's Signature

6-1-11
Date Signed

June 20, 2011

Dr. Marla M. Guerra
Superintendent
South Texas Independent School District

Subject: Final Letter of Observations and Findings, Page 19

Attachment B: Subrecipient's Proposed Corrective Action

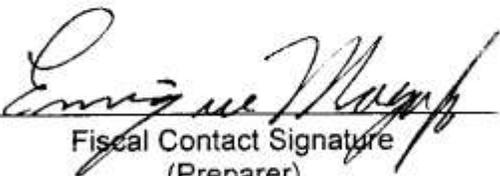
Finding: #1

Actions taken or planned for correction:

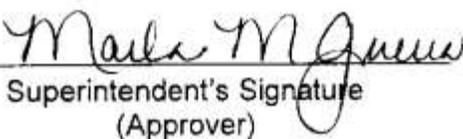
South Texas ISD accepted the auditors recommendation and applied to TEA for
a budget change on fund 266. Utility expenses replaced infrastructure
expenditures. TEA approved the budget change on April 26, 2011.

Responsibilities and timetable for the above actions:

On May 4, 2011 the budget adjustments were posted. The expense
reclassification adjustments were also posted on May 4, 2011.


Fiscal Contact Signature
(Preparer)

6-1-11
Date Signed


Superintendent's Signature
(Approver)

6-1-11
Date Signed

June 20, 2011

Dr. Marla M. Guerra
Superintendent
South Texas Independent School District

Subject: Final Letter of Observations and Findings, Page 20

Attachment B: Subrecipient's Proposed Corrective Action

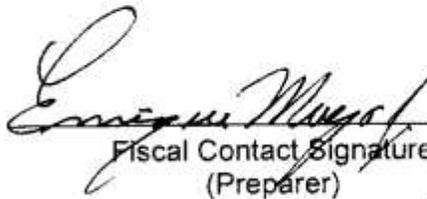
Finding: #2

Actions taken or planned for correction:

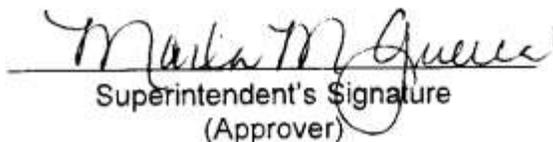
South Texas ISD has brought the problem to the principals attention. The
principals will not only provide documentation for the expenditure amount
but will also provide reference to the campus improvement plan. Also a
purchasing agent was hired to gather all necessary documentation.

Responsibilities and timetable for the above actions:

The questioned costs \$332.42 were reimbursed to fund 285. The expense was
reclassified from fund 285 to fund 199 on June 1, 2011.


Fiscal Contact Signature
(Preparer)

6-1-11
Date Signed


Superintendent's Signature
(Approver)

6-1-11
Date Signed

June 20, 2011

Dr. Marla M. Guerra
Superintendent
South Texas Independent School District

Subject: Final Letter of Observations and Findings, Page 21

Attachment B: Subrecipient's Proposed Corrective Action

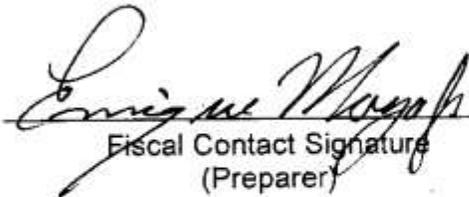
Finding: #3

Actions taken or planned for correction:

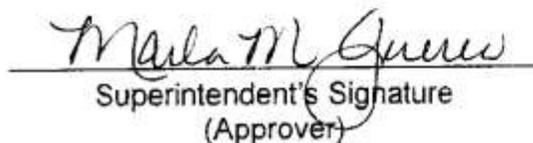
The extra money received \$51,756.60 was due to an error on the construction
managers figures. The indirect cost was taken because of a communication
from TEA that indirect cost could be requested even if it was not budgeted.

Responsibilities and timetable for the above actions:

The \$51,756.60 were refunded to TEA on December 14, 2010. The indirect
cost budget was approved on May 4, 2011 when TEA approved the fund 266
budget change.


Fiscal Contact Signature
(Preparer)

6-1-11
Date Signed


Superintendent's Signature
(Approver)

6-1-11
Date Signed

June 20, 2011

Dr. Marla M. Guerra
Superintendent
South Texas Independent School District

Subject: Final Letter of Observations and Findings, Page 22

Attachment B: Subrecipient's Proposed Corrective Action

Finding: #4

Actions taken or planned for correction:

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.

Responsibilities and timetable for the above actions:

South Texas ISD has compiled a manual that addresses all the requirements
promulgated in OMB Circular A-87. The manual is on file in South Texas ISD
business office.


Fiscal Contact Signature
(Preparer)

6-1-11
Date Signed


Superintendent's Signature
(Approver)

6-1-11
Date Signed