

October 26, 2011

VIA CERTIFIED MAIL

Rev-28-057-914-5-2011

Dr. Linda Henrie
Superintendent
Mesquite Independent School District
405 E. Davis Street
Mesquite, TX 75149-4701

Subject: Final Letter of Observations and Findings

Dear Dr. Henrie:

Auditors from the Division of Financial Audits conducted a review of the fiscal controls over federal grants awarded to Mesquite Independent School District (CDN:057-914) (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 April 6, 2011 and during the onsite visit conducted by auditors on May 2, and May 3, 2011. Your response to the preliminary letter of observations and findings dated October 20, 2011 has been incorporated into the body of this final letter of observations and findings as deemed appropriate, and is included as Attachments B and C.

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: Janice Hollingsworth, Interim Director, Division of Financial Audits

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Background:

As discussed in their notification letter dated April 6, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to Mesquite Independent School District (CDN: 057-914) 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 March 1, 2011 the subrecipient filed expenditure reports to claim a total of \$34,598,602.80 in expenditures from the total of \$47,493,347.00 ARRA funded grants awarded to the subrecipient.

TABLE A			
NOGAs Awarded to Mesquite Independent School District as of March 1, 2011			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001057914	IDEA B Formula – ARRA-LEA	\$7,382,485.00	\$4,395,751.45
10555001057914	IDEA B Pre-School – ARRA-LEA	\$191,952.00	\$178,815.34
10551001057914	Title I, Part A – ARRA/STIMULUS	\$5,758,956.00	\$4,643,387.11
10553001057914	ARRA - Title II, D Technology	\$181,408.00	\$158,982.95
11557001057914	ARRA Title XIV SFSF	\$18,644,394.00	\$9,887,820.66
10557001057914	ARRA Title XIV SFSF	\$15,334,152.00	\$15,333,845.29
Total Amounts		\$47,493,347.00	\$34,598,602.80

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 reported, budgetary control, cash management, time and effort reporting requirements and the use of ARRA funds for payroll and non-payroll expenditures. Based on their examination,

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auditors observed the that the subrecipient did not maintain an effective financial management system that met the required standards to ensure the appropriate expenditure of grant funds for the purposes stipulated and costs allowed in federal law and rules. (refer to Findings #1 and #2)

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 the subrecipient complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009. Specifically, auditors noted that:
 - a. The subrecipient used proper methodology to compile and calculate number of FTEs reported on the quarterly reports.
 - b. The subrecipient maintained adequate documentation to support the number of FTEs reported on the quarterly report.
3. **Observations on ARRA Infrastructure Expenditures:** The subrecipient did not have any budgeted expenditures for infrastructure projects budgeted from ARRA funds.

Overall Conclusion

Based upon their review of the subrecipient's records, auditors observed that, with the exception of two instances, the subrecipient generally implemented 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' findings and observations 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 B and C, and include any relevant documentation supporting its response.

Summary of subrecipient's Response

The subrecipient concurred with the auditors' findings and the General Observations of Internal Controls and provided corrective action plans to address these issues.

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective actions and noted that the subrecipient made the necessary corrections to the issues identified. As a result, auditors adjusted the questioned costs accordingly.

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Attachment A: Summary of Auditors' Findings

Observations on Subrecipient's Administration of ARRA awards

Finding # 1: The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20 (b) (2) and (b)(4).

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

1. The subrecipient's chart of accounts and detailed general ledger indicated that the subrecipient used account codes that were not permitted or were reserved in Section 1.4 of the Financial Accountability System Resource Guide. In detail:
 - a) Based on their examination of the financial records, auditors observed that the subrecipient was required to use fund code 283 to record revenues and expenditures of the IDEA B Formula ARRA grant fund. However, the subrecipient used fund code 281 which is reserved for future state designation.
 - b) Use of 3-digit FAR Fund Code; Each ARRA appropriation has been assigned its own 3-digit FAR fund code (Financial Accounting and Reporting), and its own CFDA (Code of Federal Domestic Assistance) number that must be used to track obligations and expenditures. Subrecipients must account for each ARRA award separately by using the assigned FAR fund code for each award.
 - c) Auditors reviewed the subrecipient's detailed general ledgers and observed that the subrecipient used object code 8911 to transfer IDEA B Formula ARRA (Fund Code 283) grant funds to IDEA B Formula (Fund Code 281).

Conclusion

The subrecipient's failure to implement and comply with budgetary control requirements promulgated in 34 CFR 80.20 (b)(2) and (b)(4) as well as Section 1.4 of the Financial Accountability System Resource Guide, may place grant funds at risk of being misused and impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Controls

Questioned Costs

\$0.00

Recommendation

The subrecipient should review its existing policies and procedures and update and/or

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implement adequate internal control policies and procedures 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 additional supporting documentation and a corrective action plan. See Attachment B and Attachment C.

Auditor's Addendum

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

Finding # 2: The subrecipient did not maintain effective budgetary control of grant expenditures. As a result, the subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20 (b) (4).

Statements of Fact

Based on their examination of the subrecipient's accounting and other grant records, auditors noted the following instances of noncompliance and/or weaknesses in budgetary control.

- a) Auditors observed that the subrecipient expended grant funds for payroll costs that were not approved in the program budget of the grant application as amended. Specifically, auditors noted that the subrecipient expended IDEA B Preschool ARRA (Fund Code 284) grant funds totaling \$5,127.00 for payroll expenditures under object codes 6112 and 6117. However, the program budget summary of the IDEA B Preschool ARRA grant application as amended did not indicate any amount of expenditures approved under the budget category 6100. Accordingly, auditors questioned \$5,127.00 charged to the grant under budget category 6100.
- b) Auditors noted that the subrecipient did not utilize its budget and encumbrance accounting systems to maintain effective control over the obligation and expenditure of grant funds. Specifically, the subrecipient recorded expenditures in the budget categories for payroll, professional and contracted services, and supplies and materials (6100, 6200 and 6300). These budget categories were not recorded as initial appropriations in the subrecipient's general ledger for the Title II, Part D, ARRA Stimulus grant (Fund Code 279). However, these budget categories were budgeted line items in the Title II, Part D, ARRA Stimulus grant application budget as amended.

Conclusion

The subrecipient's failure to implement and comply with budgetary control requirements promulgated in 34 CFR 80.20 (b)(4) may place grant funds at risk of being misused and impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

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Finding Type

Compliance/Internal Controls

Questioned Costs

\$0.00

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.

In accordance with the subrecipient's policies and procedures, the subrecipient should assure that grant budgets are to be reviewed regularly to review account code expenditures and to monitor if an amendment will be needed.

The subrecipient should amend the grant application budget or reclassify the expenditures to other allowable and applicable funding sources.

Subrecipient's Response

The subrecipient concurred with the auditors' finding and subsequently provided additional supporting documentation and a corrective action plan. See Attachment B and Attachment C.

Auditor's Addendum

Auditors concur with the subrecipient's response and the proposed corrective action plan. As a result, auditors adjusted the questioned costs accordingly.

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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
10554001057914	IDEA B Formula – ARRA-LEA	5/13/2009	9/30/2011
10555001057914	IDEA B Pre-School – ARRA-LEA	5/13/2009	9/30/2011
10551001057914	Title I, Part A – ARRA/STIMULUS	6/11/2009	9/30/2011
10553001057914	ARRA - Title II, D Technology	10/15/2009	9/30/2011
11557001057914	ARRA Title XIV SFSS	9/01/2010	9/30/2011
10557001057914	ARRA Title XIV SFSS	9/21/2009	9/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on May 2 and May 3, 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 B.
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.

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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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Attachment B: Subrecipient's Response to Auditors' Report

I, Dr. Linda Henrie, received the preliminary letter of observations and findings dated October 7, 2011, 2011 from the Division of Financial Audits of the Texas Education Agency. I further represent that I, in conjunction with other staff and agents of Mesquite Independent School District (the subrecipient) closely read the auditors' preliminary letter of observations and findings and thoughtfully considered the auditors' findings, general conclusion, assessment of risk and recommendation discussed therein. Accordingly, I hereby acknowledge that

 LH
(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 C.

(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. Refer to Attachment D. The subrecipient also enclosed copies of documents that support its disagreement with the auditors' preliminary letter of observations and findings. Refer to Attachment(s) E through ____.

(Please Initial)

The subrecipient concurred with only the observations noted below and proposed the corrective actions noted on Attachment C 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. Refer to Attachment D. In this latter regard, the subrecipient has also enclosed copies of documents that support its disagreement with the contents of the preliminary letter of observations and findings. Refer to Attachment(s) E through ____.

Finding	Subrecipient Concurred	
	Yes	No
01	LH	
02	LH	

I, the undersigned, attest and affirm that our response above and the supporting attachments, 1 through 3 , constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of observations and findings dated October 7, 2011 from the Division of Financial Audits. I further affirm that the subrecipient did not withhold any relevant information or documentation or otherwise failed to provide a complete and accurate response to the auditors' correspondence dated October 7, 2011.

 Linda Henrie 10/20/11
Superintendent's Signature Date Signed

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Attachment C: Finding #1 - Subrecipient's Proposed Corrective Action

Finding: 1

Actions taken or planned for correction:

Within 10 days of completion of the audit last spring, MISD transferred all expenditures from fund code 281 to
fund code 283. See attached general ledger report.

Responsibilities and timetable for the above actions:

The Administrative Officer for Budget/Finance completed the transfer from fund code 281 to fund code 283 in
May of 2011.

Fiscal Contact Signature
(Preparer)

10-19-11

Date Signed

Superintendent's Signature
(Approver)

10-19-11

Date Signed

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Attachment C: Finding #2 - Subrecipient's Proposed Corrective Action

Finding: 2

Actions taken or planned for correction:

MISD submitted an amendment for the IDEA B Preschool ARRA grant funds in the amount of \$5200 for payroll costs (6100). The amendment was approved by TEA on May 9, 2011.

The District has implemented procedures to review account code expenditures through the general ledger and to monitor the need for any budget amendments. The individual responsible for final approval of expenditures and disbursements of federal grant funds reviews the accounting records for individual transactions.

Responsibilities and timetable for the above actions:

The amendment was approved by TEA on May 9, 2011 in regard to IDEA B Preschool ARRA payroll costs.

New procedures for reviewing account code expenditures by the Federal Program coordinator were established in the summer of 2011.


Fiscal Contact Signature
(Preparer)

10-18-11
Date Signed


Superintendent's Signature
(Approver)

10/18/11
Date Signed