

October 27, 2011

Rev-13-108-905-2-2011

VIA UNITED STATES CERTIFIED MAIL

Mr. Librado S. De Hoyos
Superintendent
Hidalgo Independent School District
324 E. Flora Street
Hidalgo, TX 78557-3004

Subject: Final Letter of Observations and Findings

Dear Mr. De Hoyos:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Hidalgo Independent School District (CDN:108905) (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 September 27, 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 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 Hidalgo Independent School District (CDN:108905) pursuant to ARRA. Due to heavy emphasis on accountability and transparency of 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 December 16, 2010 the subrecipient filed expenditure reports to claim a total of \$3,313,191.07 in expenditures from the total of \$4,959,204.00 ARRA funded grants awarded to the subrecipient.

TABLE A			
NOGAs Awarded to Hidalgo Independent School District as of December 16, 2010			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001108905	IDEA B Formula – ARRA-LEA	\$764,270.00	\$489,418.27
10555001108905	IDEA B Pre-School – ARRA-LEA	\$19,871.00	\$1,648.58
10551001108905	Title I, Part A – ARRA/STIMULUS	\$1,725,247.00	\$1,108,637.99
10553001108905	ARRA - Title II, D Technology	\$53,887.00	\$0.00
10557001108905	ARRA Title XIV SFSF	\$1,317,958.00	\$1,317,958.00
11557001108905	ARRA Title XIV SFSF	\$1,077,971.00	\$395,528.23
Total Amounts		\$4,959,204.00	\$3,313,191.07

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 use of ARRA funds. Based on their examination, auditors noted that the subrecipient did not

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have adequate controls and/or maintain documentation to comply with certain federal requirements and standards of financial management. Refer to Finding #1 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 Finding #2 in the body of the letter.
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, except in a few instances, the subrecipient generally implemented certain fiscal controls to ensure the proper administration of the grant and to facilitate its compliance with the requirements promulgated by the United States Department of Education in Section 80.20 of Title 34 of the Code of Federal Regulations (34 CFR 80.20), 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 subsequently provided additional support documentation and a corrective action plan. See attachment A and attachment B.

Auditor's Addendum

Auditors reviewed the subrecipient's response and documentation submitted with the response. Auditors concur with the subrecipient's response and the proposed corrective action plans to address the findings. 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 obligated grant funds for expenditures incurred outside of the grant period approved in the grant application as amended.

Statements of Fact

Auditors selected a total sample of sixteen (16) non-payroll transactions including six (6) transactions from IDEA-B Formula – ARRA, (fund code 283), five (5) transactions from Title I, Part A – ARRA (fund code 285), five (5) transactions from ARRA Title XIV SFSF (fund code 266), and examined the documentation in support of the expenditures charged to the applicable grant (refer to Appendix A).

Specifically, auditors observed the following instance of noncompliance and/or weakness in internal controls.

Auditors observed that the subrecipient charged \$29,854.00 in travel costs related to college preparation for 29 students for a semester (invoice #645). However, the subrecipient did not maintain adequate documentation to support the costs charged to the grant due to the following.

- a. The subrecipient charged expenditures for mileage for trips that were taken prior to the beginning of the grant period. Auditors noted that up to \$10,105.33 of the total cost charged to the grant was for trips taken prior to the grant period.
- b. The mileage logs maintained by the subrecipient to support the expenditures charged to the grant were inconsistent. For example, auditors noted that the mileage logs indicated a roundtrip distance between two campuses was up to 210 miles. However, the actual roundtrip distance between two campuses was less than 95 miles.
- c. According to the subrecipient's Finance Director, there was no purchase order issued for this transaction as this was prior to implementing a purchase order approval system by the subrecipient. There were also no authorization or approval forms corresponding with the journal voucher or the invoice.

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the sixteen non-payroll transaction tested, one transaction failed various attributes that would have demonstrated compliance with 34 CFR 80.20(b)(5) and (b)(6). Accordingly, auditors questioned \$29,854.00 in non-payroll costs charged to the grant.

Conclusion

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

Questioned Costs

\$0.00

Recommendations

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 additional support 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.

Observations on ARRA Reporting Requirements

Finding # 2: The subrecipient did not demonstrate that it complied with the reporting requirements promulgated in Section 1512 of American Recovery and Reinvestment Act of 2009.

Statement of Fact

Specifically, auditors observed the following instance of noncompliance and/or weakness in internal controls.

- a. The subrecipient did not report the correct number of jobs created/retained by ARRA. Specifically, auditors noted that the subrecipient's payroll cost of grant funds included payments for extra duty/substitute pay with ARRA funds. However, the subrecipient did not include the number of hours associated with extra duty/substitute pay in its calculations of FTEs reported on the quarterly report submitted to TEA for the quarter ended October 27, 2010.
- b. The subrecipient did not maintain a written methodology to calculate the number of FTEs reported in the quarterly reports filed by the subrecipient.

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Conclusion

The subrecipient's failure to implement and comply with the reporting requirements promulgated in Section 1512 of may impede 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

None

Recommendation #1. 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.

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 additional support 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.

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 and OMB A-87. Specifically, auditors observed that the subrecipient did not maintain locally developed policies and procedures which described the following.

1. The subrecipient's policies and procedures pertaining to the expenditure of grant funds through corporate accounts and/or revolving lines of credit did not describe the following.
 - a) A statement that identified who was authorized to use this type of account and how control was maintained over the account(s).

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- b) A statement requiring that 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).
 - c) The subrecipient's policies and procedures did not address or entirely require the monitoring of corporate account and/or revolving line of credit activities to identify inappropriate use.
 - d) The subrecipient's policies and procedures did not address the use of gift cards, including an established criteria for identifying who gift cards were distributed to, how control was maintained over the gift cards, requirement that subrecipient personnel file an original itemized third-party invoice or receipt and a standard internal accounting form (e.g., payment authorization form, purchase order or reimbursement form) and the requirement of monitoring the gift card activities to identify inappropriate use.
2. Auditors reviewed the subrecipient's policies and procedures demonstrating the subrecipient's compliance with the requirements promulgated in OMB A-87 and noted the following:
- a) The subrecipient's policies and procedures did not prescribe the form and content of a periodic certification or personnel activity report.
 - b) The subrecipient's policies and procedures did not address or 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 report.
 - c) Business Procedure Manual Time & Effort forms (in this case periodic certifications) are to be completed by the end of the semester instead of on a semiannual basis.
3. The subrecipient claimed expenditures for reimbursements and drew down amounts in excess of the expenditures reported in the general ledger for the IDEA B Preschool - ARRA Grant (Fund Code 284).

Specifically, auditors noted a variance of \$1,648.58 between the amount claimed for reimbursement on the expenditure report filed by the subrecipient and the expenditures recorded on the detail general ledger for the IDEA B Preschool grant. The subrecipient subsequently provided a journal voucher showing that the expenditure was reclassified from fund code 199 on 8/31/2010. However, as of the run date of the general ledger (1/3/2011) the expenditure was not recorded on the general ledger.

Recommendation

The subrecipient should review its existing policies and procedures and update and/or implement adequate internal control policies and procedures to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

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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 A below for the grant periods indicated.

TABLE A			
Individual NOGAs Selected for Audit			
NOGA ID	NOGA Description	Begin Date	End Date
10554001108905	IDEA B Formula – ARRA-LEA	06/25/2009	09/30/2011
10555001108905	IDEA B Pre-School – ARRA-LEA	06/25/2009	09/30/2011
10551001108905	Title I, Part A – ARRA/STIMULUS	06/10/2009	09/30/2011
10553001108905	ARRA - Title II, D Technology	11/05/2009	09/30/2011
10557001108905	ARRA Title XIV SFSF	09/01/2009	09/30/2011
11557001108905	ARRA Title XIV SFSF	09/01/2010	09/30/2011

Methodology and Timeline

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

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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 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: 10554001108905 (Fund 283) Non-payroll						
1	PO-019063	10/26/2010	AMANDA CISCNEROS	\$2,840.00	\$0.00	
2	CK-013220	2/26/2010	REYNA ENTERPRISES, INC	\$15,102.00	\$0.00	
3	CK-012827	1/26/2010	MARTHA MORALES CONSULTING	\$333.00	\$0.00	
4	CK-014350	4/26/2010	SERNA, RAYMUNDO	\$2,340.00	\$0.00	
5	CK-014559	5/26/2010	GUZMAN, JOSEFINA PEREZ	\$3,848.00	\$0.00	E
6	CK-011510	10/16/2009	JESSICA D. DOAN	\$2,930.00	\$0.00	
Title 1, Part A – ARRA, NOGA ID: 10551001108905 (Fund 285) : Non-payroll						
7	CK-012614	1/21/2010	ISLA GRAND BEACH RESORT	\$737.84	\$0.00	
8	CK-014836	5/28/2010	SOUTH TEXAS COLLEGE	\$38,407.60	\$0.00	E
9	CK-215693	8/16/2010	WALMART COMMUNITY	\$2,292.19	\$0.00	
10	CK-215117	6/24/2010	H E BUTT GROCERY COMPANY	\$50.14	\$0.00	
11	CK-013982	4/16/2010	AUDIO VISUAL AIDS CORP	\$19,860.00	\$0.00	
ARRA Title XIV SFSF, NOGA ID: 10557001108905 (Fund 266) : Non-payroll						
12	GJ-070004	7/31/2010	RECLASS FROM 199 TO 266	\$1,166.91	\$0.00	
13	GJ-070004	7/31/2010	RECLASS FROM 199 TO 266	\$2,850.00	\$0.00	
14	GJ-080078	8/31/2010	RECLSS PAYRL FROM 199 TO STAB	\$61,481.62	\$0.00	
15	CK-215818	8/30/2010	LOCAL OPERATING FUND	\$12,687.84	\$0.00	
16	GJ-120902	12/9/2009	TRANS. MILEAGE REIMB INV#645	\$29,854.00	\$29,854.04	A & I
Total Questioned Costs					\$29,854.04	

Attributes Tested

Test of Internal Controls

- A. The subrecipient did not maintain an original and complete internal accounting record (e.g., purchase order) to support this transaction.
- B. The subrecipient did not maintain an original and complete third-party record (e.g., itemized invoice/receipt).
- C. The accounting record did not indicate that the transaction was approved by authorized individuals.
- D. The fully executed contract for contracted services was not provided.
- E. The purchase order was dated after the date of the vendor's invoice.
- F. The subrecipient did not provide documentation to support the costs allocated to the applicable grant.

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Compliance with Law, Rule and/or Regulation

- G. The documentation did not support specific goals and objectives in line with Individual Education Plans (IEPs) of individual students as outlined in the lesson plans.
- H. The line item was not approved in the budget as amended in the applicable grant application.
- I. The amount was not disbursed within the effective dates of the grant (Period of Availability, 34 CFR 80.23).
- J. The amount was not allowable in accordance with applicable grant requirements.
- K. The subrecipient did not maintain source documentation to support the disbursement of grant funds in accordance with 34 CFR 80.20(b)(6).

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Attachment B: Subrecipient's Response to Auditors' Report

Attachment B: Subrecipient's Response to Auditors' Report

I, Librado S. De Hoyos, received the preliminary letter of observations and findings dated September 16, 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 Hidalgo 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



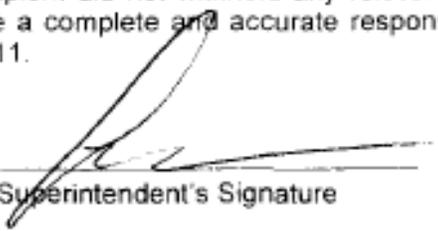
(Please Initial) The subrecipient concurred with the auditors' observations, general conclusion, assessment of risk and recommendation. Additionally, the subrecipient enclosed the attached proposed corrective action to address the auditors' observations.

(Please Initial) I disagree with the findings, recommendations and required actions and have included a written response, including copies of supporting documentation, discussing my disagreement with the findings in this preliminary letter of observations and findings.

(Please Initial) The subrecipient concurred with only the observations noted below and enclosed the attached proposed corrective action to address the auditors' findings. However, the subrecipient did not concur with the other finding, as noted below, and has enclosed a written response discussing its disagreement. 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.

Finding	Subrecipient Concurred	
	Yes	No
01	✓	
02	✓	

I, the undersigned, attest and affirm that our response above and the supporting attachments, 1 through 74, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of observations and findings dated September 16, 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 September 16, 2011.



Superintendent's Signature

9-27-11

Date Signed

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

Attachment C: Subrecipient's Proposed Corrective Action

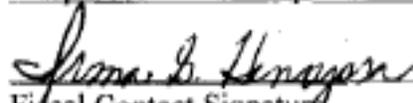
Finding: 1

Actions taken or planned for correction:

At the conclusion of the LEA's on-site audit by Texas Education Agency, one of the auditors recommended that we amend our SFSF application to include a pre-award cost. On February 18, 2011, the LEA amended its 2009-2010 application to include the pre-award cost and on March 28, 2011 a new NOGA was issued reflecting the approval of the amendment. Pre-Award costs covered the period from February 17, 2009 to September 1, 2009. Attached to the corrective action are the following documentations: slide from the SFSF training, copy of the Negotiation's page showing the approval of the amendment, NOGA issued after the approval, copy of the General Journal Entry, the approved invoice, a mileage log for college transportation that includes the following three sites: STC (McAllen, Texas), TSTC (Harlingen, Texas), and the University of Texas/Pan American (Edinburg, Texas).

Responsibilities and timetable for the above actions:

On October 2009, the Director of Finance and Accountant were replaced by new personnel that set specific procedures and guidelines that ensured that all district transactions were reviewed and approved in a timely manner. Invoice #645 was approved by the Director of Support Services and the financial accountant, but failed to secure approval from the finance director. Prior to this audit, purchase orders for transportation costs were not in existence since these costs were processed through general entries. In addition, the LEA has developed a tracking system to log all miles, sites, dates, and bus numbers as a basis for all transactions. Based on the observations and recommendations from the on-site audit, the LEA has also taken action to ensure that all required policies and procedures are in placed and followed.


Fiscal Contact Signature
(Preparer)


Superintendent's Signature
(Approver)

9/27/11
Date Signed

9-27-2011
Date Signed

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

Attachment C: Subrecipient's Proposed Corrective Action

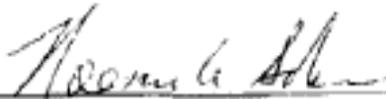
Finding: 2

Actions taken or planned for correction:

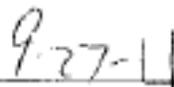
Based on the on-site ARRA audit, the LEA is in agreement that extra duty pay was not included in the FTEs calculations; however this procedure has been corrected as of September 30, 2010. Hidalgo Independent School District is now in compliance with all ARRA requirements of FTE documentation. A written methodology is now in place (see attachment) to calculate FTEs.

Responsibilities and timetable for the above actions:

As of September 30, 2010, all findings concerning FTEs has been corrected by the LEA and supporting documentation is attached to address this audit finding. Documentation includes: Method of calculating FTEs, Time & Effort logs, and FTE's calculations for fund 266 (SFSF).



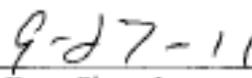
Fiscal Contact Signature
(Preparer)



Date Signed



Superintendent's Signature
(Approver)



Date Signed