

June 17, 2011

VIA UNITED STATES CERTIFIED MAIL 91 7199 9991 7030 1539 1445

Ms. Alda Benavides  
Superintendent  
La Joya Independent School District  
201 E. Expressway 83  
La Joya, TX 78560-2009

Subject: Final Letter of Observations

Dear Ms. Benavides:

Auditors from the Division of Financial Audits conducted a review of the fiscal controls over federal grants awarded to La Joya Independent School District (CDN:108912) (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 9, 2011. Your response to the preliminary letter of observations and findings dated June 14, 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 the undersigned 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  
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, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to La Joya Independent School District (CDN:108912) 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 \$28,284,063.86 in expenditures from the total of \$44,211,939.00 ARRA funded grants awarded to the subrecipient.

<b>TABLE A</b>			
<b>NOGAs Awarded to La Joya Independent School District as of November 23, 2010</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Amount Awarded</b>	<b>Amount Expended</b>
10554001108912	IDEA B Formula – ARRA-LEA	\$5,953,076.00	\$1,347,241.80
10555001108912	IDEA B Pre-School – ARRA-LEA	\$154,783.00	\$3,678.87
10551001108912	Title I, Part A – ARRA/STIMULUS	\$13,059,411.00	\$9,510,632.24
10553001108912	ARRA - Title II, D Technology	\$411,372.00	\$314,249.48
10557001108912	ARRA Title XIV SFSF	\$14,654,833.00	\$14,654,833.00
11557001108912	ARRA Title XIV SFSF	\$9,978,464.00	\$2,377,331.22
10551004108912004	Title I, SIP – ARRA/STIMULUS	\$190,474.00	\$76,097.25
<b>Total Amounts</b>		\$44,211,939.00	\$28,284,063.86

**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

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control of ARRA grants, cash management, time and effort reporting requirements and the use of ARRA funds. Based on their examination, auditors noted that in certain instances the subrecipient did not have adequate controls and/or maintain documentation to comply with certain federal requirements and standards of financial management. (refer to Finding #1)

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 did not demonstrate that it complied with the reporting requirements promulgated in Section 1512 (c) of the American Recovery and Reinvestment Act of 2009. (refer to Finding #2).
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 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 the American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' findings and observations are discussed in the body of the letter.

### **Questioned Costs**

None

### **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 a corrective action plan. See attachment B and attachment C.

### **Auditor's Addendum**

Auditors reviewed the subrecipient's response dated June 14, 2011 to the preliminary letter of observations and findings and the documentation submitted with the response. Auditors concur with the subrecipient's response and the proposed corrective action plan to address the findings reported in the preliminary letter of observations and findings.

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**Attachment A: Auditors Observations and Findings.**

**Finding # 1:** The subrecipient did not demonstrate that it complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(2). Specifically, auditors noted that the subrecipient's accounting records did not adequately comply with Section 1.4 of the Financial Accountability System Resource Guide (FASRG) and/or did not provide sufficient or adequate accounting data for the transactions recorded.

Statement of Fact

Specifically, Auditors observed that the subrecipient's chart of accounts, detailed general ledger and payroll journal 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.

Based on their examination of financial records, auditors observed that the subrecipient was required to use net asset code 285 to record revenues and expenditures of Title I, Part A ARRA and Title I, SIP ARRA grant funds. However, auditors observed that instead of using fund code 285, the subrecipient used fund codes 287 and 288 to record revenue and expenditures of Title I, Part A ARRA and Title I, SIP ARRA respectively, which were not allowed because both fund code 287 and 288 convert to fund 289 in PEIMS. Auditors were informed that fund code 285 was not used because it was already used for another federal grant. Furthermore, the fund code 287 has been assigned to Education Jobs Program grant for the NOGA period of 2010-2012. As stated in SAS Application Guidelines-part 2, Program guidelines and use of funds, "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. ARRA funds must remain as separately identifiable administrative and program funds".

**Conclusion**

The subrecipient's failure to comply with grant expenditure requirements as promulgated in the grant application as amended may place grant funds at risk of being misused and impede the subrecipient's ability to expend grant funds for the costs allowed in federal law and rules.

**Finding Type**

Compliance/Internal Controls

**Questioned Costs**

None.

**Recommendation**

The subrecipient should use the account codes designated by TEA to record obligations and expenditures of applicable grant funds in order to comply with requirements promulgated in the grant application as amended.

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**Subrecipient's Response and Corrective Action Taken or Proposed**

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

**Auditors' Addendum**

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

**Internal Controls: General Observations**

Auditors observed that the subrecipient did not maintain locally developed policies and procedures that described the following:

The process that subrecipient personnel were required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit.

**Recommendations**

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 the grant agreements.

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**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 instances of noncompliance and/or weaknesses in internal controls.

The subrecipient did not report the correct number of jobs created/retained by ARRA. 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 December 31, 2010.

**Conclusion**

The subrecipient's failure to implement and comply with reporting requirements promulgated in Section 1512 may 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 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 the reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements.

**Recommendation #2.** The estimate of the number of jobs required by 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 and Corrective Action Taken or Proposed**

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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### **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.

<b>TABLE A Individual NOGAs Selected for Audit</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Begin Date</b>	<b>End Date</b>
10554001108912	IDEA B Formula – ARRA-LEA	06/30/2009	09/30/2011
10555001108912	IDEA B Pre-School – ARRA-LEA	06/30/2009	09/30/2011
10551001108912	Title I, Part A – ARRA/STIMULUS	05/22/2009	09/30/2011
10553001108912	ARRA - Title II, D Technology	10/14/2009	09/30/2011
10557001108912	ARRA Title XIV SFSF	09/24/2009	09/30/2011
11557001108912	ARRA Title XIV SFSF	09/01/2010	09/30/2011
10551004108912004	Title I, SIP – ARRA/STIMULUS	10/06/2009	06/30/2010

#### **Methodology and Timeline**

After completing certain desk audit procedures, auditors conducted an onsite visit on February 9, 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 subrecipient to ensure that it included budgetary data consistent with the budget approved by TEA for each grant and maintained a 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 the 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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Superintendent  
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### **Acronyms and Abbreviations Used In This Letter**

<b>Acronym</b>	<b>Acronym Description</b>
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
PEIMS	Public Education Management System
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**

ab  
(Please Initial) The subrecipient concurred with the auditors' observations, general conclusion and recommendation. Additionally, the subrecipient enclosed the attached proposed corrective action to address the auditors' observations. Refer to Attachment C.

X  
(Please Initial) The subrecipient did not concur with the auditors' observations, general conclusion 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 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 findings. Refer to Attachment(s) E through \_\_\_\_.

Finding	Subrecipient Concurred	
	Yes	No
01		
02		

I, the undersigned, attest and affirm that our response above and the supporting attachments,   D1   through   D64  , constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of observations and findings dated May 18, 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 May 18, 2011.

Alda Benavides  
Superintendent's Signature

6/14/11  
Date Signed

June 17, 2011

Ms. Alda Benavides  
Superintendent  
La Joya Independent School District

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**Attachment C: Subrecipient's Proposed Corrective Action**

Finding:     1    

**Actions taken or planned for correction:**

Effective immediately, the subrecipient (La Joya ISD) will use the account code designated by TEA to record obligations and expenditures of applicable grant funds in order to comply with the requirements promulgated in the grant application as amended.

**Responsibilities and timetable for the above actions:**

The subrecipient (La Joya ISD) did not use fund code 285 to record revenues and expenditures of Title I, Part A ARRA and Title I, SIP ARRA grant funds. Fund codes 287 and 288 were used for Title I, Part A ARRA and Title I, SIP ARRA, respectively. For PEIMS purposes fund 287 and 288 were converted to fund 285. As the attached supporting documents indicate (Attachment D: Finding 1), the subrecipient has reclassified and converted the previously used 287 and 288 accounts, to the TEA designated fund code 285. Additionally, for the remainder of the grants, the subrecipient will use the account code designated by TEA to record revenues and expenditures.

  
\_\_\_\_\_  
Fiscal Contact Signature  
(Preparer)

6/14/11  
\_\_\_\_\_  
Date Signed

  
\_\_\_\_\_  
Superintendent's Signature  
(Approver)

6/14/11  
\_\_\_\_\_  
Date Signed

June 17, 2011

Ms. Alda Benavides  
Superintendent  
La Joya Independent School District

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**Attachment C: Subrecipient's Proposed Corrective Action**

Finding:     2    

**Actions taken or planned for correction:**

Effective immediately, the subrecipient (La Joya ISD) will update and implement adequate internal controls to ensure reasonable assurance that it is complying with the reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements. Also, the estimate of the number of jobs required by ARRA will be expressed as FTEs, which will be calculated as total hours worked in a full-time schedule, as defined by the recipient within the reporting quarter. These FTEs will then be adjusted to count only for the portion of the job funded by ARRA.

**Responsibilities and timetable for the above actions:**

The subrecipient (La Joya ISD) has updated its internal controls (Attachment D: Finding 2a) to ensure reasonable assurance that it is complying with the reporting requirements of ARRA, laws, regulations, and the provisions of grant agreements. Internal controls will occur by staff strictly adhering to the guidelines of the updated *La Joya ISD Grant Procedures Manual*. In addition, the estimates of the number of jobs required by ARRA and reported in the Quarterly Report are now expressed as FTEs (in fact, this response/action has been in place since December 2010) and it applies to ARRA salary employees and ARRA extra duty/substitute pay (Attachment D: Finding 2b).

  
\_\_\_\_\_  
Fiscal Contact Signature  
(Preparer)

6/14/11  
\_\_\_\_\_  
Date Signed

  
\_\_\_\_\_  
Superintendent's Signature  
(Approver)

6/04/11  
\_\_\_\_\_  
Date Signed

June 17, 2011

Ms. Alda Benavides  
Superintendent  
La Joya Independent School District

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**Attachment C: Subrecipient's Proposed Corrective Action**

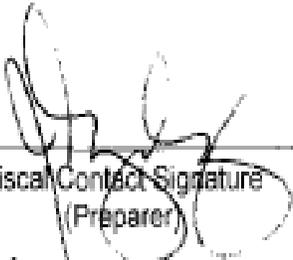
Finding:      General Observations     

**Actions taken or planned for correction:**

Effective immediately, the subrecipient (La Joya ISD) will update and implement adequate internal controls to ensure reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of the grant requirements.

**Responsibilities and timetable for the above actions:**

The process which subrecipient personnel are required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit is now depicted in the *La Joya ISD Purchasing Manual* (Attachment D: General Observations).

  
\_\_\_\_\_  
Fiscal Contact Signature  
(Preparer)

6/14/11  
\_\_\_\_\_  
Date Signed

  
\_\_\_\_\_  
Superintendent's Signature  
(Approver)

6/14/11  
\_\_\_\_\_  
Date Signed