

October 24, 2011

Rev-25-161-920-4-2011

VIA UNITED STATES CERTIFIED MAIL

Dr. Jason McCullough  
Superintendent  
China Spring Independent School District  
PO Box 250  
China Spring, TX 76633

Subject: Final Letter of Findings and Observations

Dear Dr. McCullough:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to China Spring Independent School District (CDN: 161-920) (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 March 17, 2011 and during the onsite visit conducted by auditors on April 14, 2011. Your response to the preliminary letter of findings dated September 15, 2011 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachments B and C. This correspondence and its attachments constitute a final letter of findings and observations. Although the records submitted by the subrecipient remain subject to review by appropriate federal and/or state oversight entities, auditors consider this review closed.

Should you have any questions, please contact Lance McMillan 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 March 17, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to China Spring Independent School District (CDN: 161-920) 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 16, 2011 the subrecipient filed expenditure reports to claim \$946,640.27 in expenditures from a total of \$1,364,695.00 ARRA funded grants awarded to the subrecipient (refer to Table A below).

<b>TABLE A</b>			
<b>Expenditures of NOGAs Awarded to China Spring ISD as of March 16, 2011</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Amount Awarded</b>	<b>Amount Expended</b>
10551001161920	Title I, Part A – ARRA/STIMULUS	\$72,277.00	\$55,176.81
10551001161920	ARRA Title XIV SFSF (09-10)	\$650,417.00	\$650,417.00
11557001161920	ARRA Title XIV SFSF (10-11)	\$642,001.00	\$241,046.46
<b>Total Amount Awarded</b>		\$1,364,695.00	\$946,640.27

### 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 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, Observation #1, and Observation #2)
- 2. Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports

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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 American Recovery and Reinvestment Act of 2009. (Refer to Observation #3)

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, 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 observations. See Attachments B and C.

### **Auditor's Addendum**

Auditors reviewed the subrecipient's response and corrective actions plan dated September 28, 2011 and concur with the subrecipient's response and corrective actions. As a result, auditors removed the questioned costs.

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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 complied with 34 CFR 80.23. Specifically, auditors noted that the subrecipient obligated grant funds for expenditures incurred outside of the grant period approved in the NOGA.

#### Statements of Fact

Auditors selected a total sample of eight (8) non-payroll transactions including four (4) transactions from Title I, Part A – ARRA (fund code 285), four (4) transactions from Title XIV SFSF (fund 266), and examined the documentation in support of the expenditures charged to the applicable grant.

Auditors reviewed the documentation provided in support of the transactions and observed the following:

- a) In one instance, auditors observed that the subrecipient issued the purchase order after the date of the vendor's invoice (refer to item #7 in Appendix A).
- b) In the same transaction, auditors observed that a journal voucher entry included two payments to an education cooperative that were outside of the period of availability of funds (the grant period). As a result, auditors questioned \$249,918.80 charged to Title XIV SFSF – ARRA, fund 266 (refer to item #7 of Appendix A).

### **Conclusion**

The subrecipient's failure to obligate funds within the NOGA grant period could 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 Control

### **Questioned Costs**

\$0.00

### **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 grant agreements.

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### **Subrecipient's Response**

See Attachments B and C.

### **Auditor's Addendum**

In their response, the subrecipient performed a journal voucher to remove the expenditures that occurred prior to the grant period. As a result, auditors removed the questioned costs.

**Observation #1:** Auditors noted that, in one instance, the subrecipient failed to maintain adequate and sufficient source documentation to support the payroll costs charged to the grant funds.

#### Statement of Fact

Auditors selected a total sample of five (5) payroll transactions that consisted of five (5) transactions from Title I, Part A – ARRA (fund code 285) and examined the documentation in support of the payroll expenditures charged to the applicable grant.

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

- a) The subrecipient had a supplemental pay agreement (pay form) that was not signed by the substitute and/or a supervisor.

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the 5 non-payroll transactions tested, one transaction failed an attribute that would have demonstrated compliance with OBM-A-87 and/or the 34 CFR 80.20(b)(3) (refer to item #5 of Appendix B).

**Observation #2:** The auditors noted that the subrecipient did not maintain adequate policies and procedures to comply with the standards for financial management systems promulgated at 34 CFR 80.20(b)(3)

#### Statements of Fact

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

- a) The subrecipient's policies and procedures did not include a description of the process that subrecipient personnel were required to follow for the draw-down of grant funds.
- b) The subrecipient's policies and procedures did not include a description of the third-party documentation (e.g., invoices) required to support the disbursement of funds.
- c) The subrecipient's policies and procedures did not include a description of the subrecipient's capitalization process for grant funded expenditures (including disposal of used items).

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- d) The subrecipient's policies and procedures did not include Time and Effort policies in regards to OBM A-87.

### **Conclusion**

The subrecipient's failure to implement and comply with time and effort requirements promulgated in OMB Circular A-87 and/or 34 CFR 80.20(b)(3) could 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

The subrecipient's failure to implement comprehensive policies and procedures could 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.

### **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 grant agreements.

### **Observations on ARRA Reporting Requirements:**

- Observation #3:** 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 weaknesses in internal controls.

- a) Auditors noted that the subrecipient's expenditure of grant funds (Fund 266) included payroll costs during the period ending December 31, 2010. However, the subrecipient did not report any jobs created/retained by ARRA funds on the quarterly report submitted by the subrecipient, for the quarter ended December 31, 2010.

### **Conclusion**

The subrecipient's failure to implement and comply with 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.

### **Recommendations**

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

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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/>

**Observations on ARRA Infrastructure Expenditures:** The subrecipient did not have any budgeted expenditures for infrastructure projects budgeted from ARRA funds.

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## Summary of Audit Objectives, Scope 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.

<b>TABLE B Individual NOGAs Selected for Audit</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Begin Date</b>	<b>End Date</b>
10551001161920	Title I, Part A – ARRA/STIMULUS	08/11/2009	09/30/2011
10551001161920	ARRA Title XIV SFSF (09-10)	09/30/2009	09/30/2011
11557001161920	ARRA Title XIV SFSF (10-11)	09/01/2010	09/30/2011

### Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on April 14, 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**

<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
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	Transaction Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
<b>Title I, Part A – ARRA, NOGA ID: 10551001161-920</b>						
1	PO 903353	1/21/10	Troxell Communications	\$28,165.00	\$0	
2	GJ 000572	9/29/10	Contracted Serv CScope Elem	\$4,395.80	\$0	
3	PO 903364	1/21/10	Lakeshore Learning Material	\$340.36	\$0	
4	PO 905437	3/17/11	Callaway House	\$799.90	\$0	
<b>ARRA Title XIV SFSF, NOGA ID: 10557001161-920</b>						
5	PO 903010	12/3/09	Dell Marketing	\$80,866.50	\$0	
6	GJ 000554	9/23/10	Reclass purchase of mobile lab	\$10,859.86	\$0	
7	GJ 000546	9/18/10	Record payments to ECCT	\$461,186.00	\$249,918.80	F, K
8	GJ 000617	3/29/11	Reclass computers from 199 to 266	\$43,691.40	\$0	
<b>Total Non-Payroll Questioned Cost</b>					<b>\$249,918.80</b>	

**Non-Payroll Attributes Tested**

- A – Use of funds was reasonable and necessary to further the statutory purpose of the grant.
- B – Costs were chargeable or assignable to the grant in accordance with the relative benefits received.
- C – Goods or services purchased were supported by the DIP/CIP.
- D – Did the purchase comply with ARRA requirements including prohibited costs (Section 14003), Buy American (Section 1605), Davis Bacon (Section 1606), and Web Posting (Section 1511) (capital outlay, if applicable).
- E – Accounting record included an original and complete internal accounting document (e.g.: executed contract, purchase order, payment authorization form, expense reimbursement, Form W-4, etc).
- F – The purchase order was issued prior to the data of the vendor’s invoice.
- G – The accounting record included an original and complete third party document (e.g.: invoice, itemized receipt, utility bill, bank deposit, etc).
- H – The accounting record indicated the transaction was approved by authorized individuals.
- I – The item was approved in the program budget, as amended. (Note: if the costs and/or activity was approved on a specific line item or schedule).
- J – The purchase adhered to the comparative bidding requirements (if applicable).
- K – Determine if the costs were incurred and good/services were received after the start and before the end of the grant period.

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Appendix B						
Item No.	Ref. Number	Payroll Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
<b>Title I, Part A - ARRA, NOGA ID: 10551001154901</b>						
1	285-6119	5/14/2010	Mitchell, Miriam	\$ 66.00	\$0	
2	285-6119	4/15/2010	Kroll, Kathleen	\$ 20.00	\$0	
3	285-6119	5/14/2010	Heffington, Ruby	\$ 65.20	\$0	
4	285-6119	4/15/2010	Christian, Callie Jeanne	\$ 20.60	\$0	
5	285-6119	5/14/2010	Bevins, Carrie Rene	\$ 1,305.40	\$0	F
<b>Total Payroll Questioned Cost</b>					<b>\$0.00</b>	

#### Payroll Attributes Tested

- A - Position(s) approved in the budget.
- B - Signed and dated job description provided.
- C - Position supported by laws, rules, regulation, and grant application.
- D - Salary authorization and personnel action forms provided.
- E - Time sheet provided for extra duty/substitute pay claimed.
- F - Signed supplemental contract/agreement that stipulated program (e.g. Title I work activities) performed by the teacher for tutoring/extra duty pay.
- G - Periodic Certification provided for 100 % funded employee.
- H - Activity Reported provided for split funded employees.
- I - Time allocation agrees to cost allocation.
- J – Signed and dated job description with funding source provided in lieu of a periodic certification as per ED Flex Waiver (Title I only).

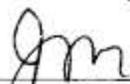
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**Attachment B: Subrecipient's Response to Auditors' Report**

I, Dr. Jason McCullough, received the preliminary letter of findings dated September 15, 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 China Spring ISD (the subrecipient) closely read the auditors' preliminary letter of 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 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 findings.

Finding	Subrecipient Concurred	
	Yes	No
01		

I, the undersigned, attest and affirm that our response above and the supporting attachments, ACF#1 through AC#3 constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings and observations dated September 15, 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 March 17, 2011.

  
\_\_\_\_\_  
Superintendent's Signature

9-28-11  
\_\_\_\_\_  
Date Signed

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

**Finding / Observation: #1**

**Actions taken or planned for correction:**

- a) In one instance, auditors observed that the subrecipient issued the purchase order after the date of the vendor's invoice. (item #7 in Appendix A, F)

**China Spring ISD has added " All services and goods must have a purchase order issued prior to the date of service for the invoice to be paid" to Purchasing Procedures of the Federal Programs Business Procedure Manual. (See page 28)**

- b) In the same transaction, auditors observed that a journal voucher entry included two payments to an education cooperative that were outside of the period of availability of funds (the grant period). As a result, auditor questioned \$ 249,918.80 charged to Title XIV SFSF – ARRA, fund 266. (item #7 in Appendix A, K)

**China Spring ISD entered two Prior Period Adjustment Journal Voucher Entries:**

- 1) **General Journal Entry #000599 – This entry reversed General Journal Entry #000546. General Journal Entry #000546 recorded payments to ECCT (Education Cooperative of Central Texas) referencing the following invoices:**
  - # 1944 dated 08-13-2009**
  - #1970 dated 09-04-2009**
  - # 2002 dated 11-01-2009**
  - # 2052 dated 12-01-2009**
  
- 2) **Journal Entry # 000600 – This entry records payments to ECCT referencing the following invoices:**
  - # 2002 dated 11-01-2009**
  - #2052 dated 12-01-2009**
  - #2071 dated 12-14-2009**
  - #2099 dated 01-11-2010**

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

- a) China Spring ISD implemented the above actions at the beginning of the 2011-12 school year.
- b) The above entries were made on May 26, 2011 as a Prior Period Adjustment to fiscal year 2009-2010. (See attached documentation)