

October 26, 2011

Rev-34-210-901-5-2011

VIA UNITED STATES CERTIFIED MAIL

Mr. James Hockenberry
Superintendent
Center Independent School District
P.O. Drawer 1689
Center, TX 75935-3864

Subject: Final Letter of Findings and Observations

Dear Mr. Hockenberry:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Center Independent School District (CDN: 210-901) (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 25, 2011 and during the onsite visit conducted by auditors on May 23, 2011. Your response to the preliminary letter of findings dated September 23, 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 Audit

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Superintendent
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Background

As discussed in their notification letter dated April 25, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to Center Independent School District (CDN: 210-901) 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 April 19, 2011 the subrecipient filed expenditure reports to claim \$2,739,637.36 in expenditures from a total of \$3,056,708.00 ARRA funded grants awarded to the subrecipient (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to Center ISD as of April 19, 2011			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001210901	IDEA-B FORMULA – ARRA	\$528,426.00	\$442,007.45
10555001210901	IDEA-B PRESCHOOL – ARRA	\$13,739.00	\$6,047.74
10551001210901	Title I, Part A – ARRA/STIMULUS	\$469,205.00	\$400,869.58
10553001210901	ARRA - Title II, D Technology	\$14,780.00	\$14,289.00
10557001210901	ARRA Title XIV SFSF	\$1,311,688.00	\$1,311,688.00
11557001210901	ARRA Title XIV SFSF	\$718,870.00	\$564,735.59
Total Amount Awarded		\$3,056,708.00	\$2,739,637.36

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

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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 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 did not adequately comply with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009. (Refer to Finding #5)
3. **Observations on ARRA Infrastructure Expenditures:** Auditors examined the infrastructure project and noted the subrecipient did not have adequate controls and/or maintain documentation to comply with Section 1605 (Buy American) and Section 1606 (Davis Bacon) of ARRA. (Refer to Findings #3 and #4)

Overall Conclusion

Based upon their review of the subrecipient's records, auditors observed that, with a few exceptions, 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 and made corrections to all the issues identified. See Attachments B and C.

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective actions to the preliminary letter of findings and observation dated September 23, 2011. Auditors noted that the subrecipient concurred with the auditor's findings and observations and subsequently made corrections to the issues identified. As a result, auditors removed the questioned cost.

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Attachment A: Summary of Auditors' Findings

Observations on Subrecipient's Administration of ARRA awards

Finding #1: The subrecipient expended Title I, Part A – ARRA grant funds for costs not allowed as per the grant guidelines.

Statement of Fact

Auditors selected a total sample of twelve (12) non-payroll transactions including five (5) transactions from IDEA-B Formula – ARRA, (fund code 283), two (2) transaction from IDEA-B Preschool – ARRA, (fund code 284), three (3) transactions from Title I, Part A – ARRA (fund code 285), one (1) transaction from Title II, Part D – ARRA (fund 279), one (1) transaction from ARRA Title XIV SFSF and examined the documentation in support of the expenditures charged to the applicable grant.

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

Auditors observed that the subrecipient expended grant funds (fund 285) for a Spaghetti Dinner at a “town hall” type meeting. As per grant application guidelines for allowable food costs for parents and/or students, “Full meals for parents or students are not allowable for these purposes under any circumstances. Expenditures must be reasonable in cost, necessary to accomplish program objectives, and an integral part of the instructional program”. As a result, auditors questioned the costs of \$725.00 (refer to item #10 of Appendix A).

Conclusion

The subrecipient's internal control weaknesses adversely affected its ability to comply with the applicable grant requirements 34 CFR 80.20(b)(4) & (5) to properly administer grants funds. Consequently, the subrecipient's failure to ensure that expenditures are allowable and within the approved budget, according to the grant application, may place the 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

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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. Specifically, the subrecipient should ensure that the expenditures are allowable per the grant guidelines, and within the approved budget.

Subrecipient's Response

See Attachments B and C

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective action plan and noted that the subrecipient provided a journal entry indicating the subrecipient subsequently removed the un-allowed cost from the Title I, Part A ARRA grant (fund 285). Auditors concur with the subrecipient's response and corrective actions. As a result, auditors removed the questioned costs.

Finding #2: Auditors noted that the subrecipient failed to maintain adequate and sufficient source documentation to support the payroll costs charged to the grant funds.

Statements of Fact

Auditors selected a total sample of nine (9) payroll transactions including three (3) transactions from IDEA-B Formula – ARRA, (fund code 283), four (4) transactions from Title I, Part A – ARRA (fund code 285), two (2) transactions from ARRA Title XIV SFSF (fund code 266) and examined the documentation in support of the expenditures charged to the applicable grant.

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

- a) In some instances, the subrecipient did not maintain a supplemental pay agreement for substitutes and/or extra duty (refer to items #1, #2, and #5 of Appendix B).
- b) The subrecipient did not have timesheets and/or personnel activity reports for split funded employees that clearly indicated the employees' activity (refer to items #1, #2, and #5 of Appendix B).
- c) The subrecipient failed to develop and implement comprehensive administrative procedures that identified the processes and forms that it would use to ensure compliance with the time and effort requirements promulgated in OMB circular A-87.

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the nine (9) non-payroll transactions tested, three (3) transactions failed attributes that would have demonstrated compliance with OMB A-87 and/or the 34 CFR 80.20(b)(3), therefore auditors questioned costs in the amount of \$295.70 (refer to items #1, #2, and #5 of Appendix B).

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Conclusion

The subrecipient's failure to implement and comply with time and effort requirements as well as the source documentation requirements promulgated in OMB Circular A-87 and/or 34 CFR 80.20(b)(6) may place grant funds at risk of being misused and 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

\$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.

Subrecipient's Response

See Attachments B and C

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective action plan and noted that the subrecipient provided updated process/forms that employees must complete in order to comply with the Time and Effort requirements of OMB A-87. The forms provided by the subrecipient have been updated to indicate semi-annual certification for 100% and monthly personnel activity reports (PARs) of split-funded employees. The timesheets (PARs) have been updated to indicate the activities performed for split-funded employees. Auditors concur with the subrecipient's response and corrective actions. As a result, the auditors removed the questioned costs.

Observations on ARRA Infrastructure Expenditures:

Compliance with Davis Bacon Act Provisions of ARRA: The Davis Bacon Act provisions of ARRA (1606) requires the subrecipient to ensure that their contractors or subcontractors pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on projects of a similar character. For further information on the Davis Bacon Act provisions of ARRA (1606) please refer to <http://www.gpo.gov/fdsys/pkg/CFR-2010-title29-vol1/pdf/CFR-2010-title29-vol1.pdf>.

Compliance with Buy American Act Provisions of ARRA: The Buy American Act provisions of ARRA requires the subrecipient to ensure that all iron, steel and manufactured goods used in

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the infrastructure investment project were produced in the United States. For additional information on Buy American provisions of ARRA (1605) please refer to <http://www.gpo.gov/fdsys/pkg/CFR-2010-title2-vol1/pdf/CFR-2010-title2-vol1.pdf>

Finding #3: The subrecipient did not demonstrate that it complied with Davis Bacon Act (Section 1606) provisions of ARRA.

Finding #4: The subrecipient did not demonstrate that it complied with Buy American Act (Section 1605) provision of ARRA.

Statements of Fact

Auditors reviewed the documentation provided in support of the infrastructure investment project and observed the following:

- a) Auditors examined the documentation provided by the subrecipient and observed that documentation did not contain specific language for contractors to comply with either the Davis Bacon or the Buy American provisions of ARRA. The subrecipient did not provide any additional documentation demonstrating that the subrecipient complied with these requirements.
- b) Auditors noted that the subrecipient did maintain documentation such as wage determination sheets to demonstrate compliance with Davis Bacon provision of ARRA.

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that the subrecipient did not adequately demonstrate compliance with Section 1605 (Buy American) and Section 1606 (Davis Bacon) provisions of ARRA (refer to item #12 of Appendix A). Therefore, auditors questioned the costs charged to the grant for the infrastructure investment project in the amount of \$1,311,688.00 (refer to item #12 of Appendix A).

Conclusion

The subrecipient's failure to implement and comply with provisions of Section 1605 (Buy American Act) and Section 1606 (Davis Bacon Act) of ARRA placed grant funds at risk of being misused and impeded the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Finding Type

Compliance/Internal Control

Questioned Costs

\$0.00

Recommendations

Due to noncompliance with the infrastructure requirements and during their onsite visit, auditors

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recommended that the subrecipient amend the grant application to remove the infrastructure project from the program budget to avoid the questioned cost.

Required Action

The subrecipient should provide a copy of the detailed general ledger to match the amended budget.

Subrecipient's Response

See Attachments B and C.

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective action plan and noted that the subrecipient removed the infrastructure project from the SFSF grant (fund code 266). Subsequent to the onsite visit, the subrecipient submitted a budget amendment to the TEA to remove the infrastructure cost from the SFSF grant and replaced the costs with payroll charges. The subrecipient provided a journal voucher indicating the cost had been removed for infrastructure projects. Auditors concur with the subrecipient's response and corrective actions. As a result, auditors removed the question cost.

Observations on ARRA Reporting Requirements:

Finding #5: 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 adequately comply with the reporting requirements promulgated in Section 1512 (c) 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 for Section 1512 of ARRA.

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.

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

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Compliance/Internal Control

Questioned Costs

\$0.00

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

See Attachments B and C.

Auditor's Addendum

Auditors reviewed the subrecipient's response and corrective action plan and noted that the subrecipient implemented procedures to calculate FTEs for substitute and/or extra duty pay. Auditors concur with the subrecipient's response and corrective actions.

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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.

TABLE B Individual NOGAs Selected for Audit			
NOGA ID	NOGA Description	Begin Date	End Date
10554001210901	IDEA B Formula – ARRA-LEA	7/1/2009	9/30/2011
10555001210901	IDEA B Pre-School – ARRA-LEA	7/1/2009	9/30/2011
10551001210901	Title I, Part A – ARRA/STIMULUS	5/30/2009	9/30/2011
10553001210901	ARRA - Title II, D Technology	9/25/2009	9/30/2011
10557001210901	ARRA Title XIV SFSF	9/24/2009	9/30/2010
11557001210901	ARRA Title XIV SFSF	9/1/2010	9/30/2011

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on May 23, 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 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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Appendix A						
Item No.	Ref. Number	Transaction Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001154901						
1	PO 440583	9/28/2009	Computer Automation System	\$612.50	\$0.00	F
2	PO 444148	4/23/2010	Walmart Stores Inc.	\$328.80	\$0.00	
3	PO 112890	1/19/2011	Perkins, Teena Clark	\$1,900.00	\$0.00	F
4	PO 440320	9/18/2009	Loftice, Belinda	\$1,350.00	\$0.00	F
5	PO 112024	11/30/2010	CISD Transportation Dept.	\$84.50	\$0.00	
IDEA-B Preschool - ARRA, NOGA ID: 10555001210901						
6	PO 444944	5/17/2010	Crisis Prevention Institute	\$321.47	\$0.00	
7	PO 113565	2/16/2011	Westin-Austin at the Domain	\$185.30	\$0.00	
Title I, Part A – ARRA, NOGA ID: 10551001154901						
8	PO 445688	7/20/2010	American Education Corp.	\$16,417.99	\$0.00	F
9	GL-300062	1/6/2011	Auditors Adjustment	\$17,500.00	\$0.00	
10	GL-005121	3/31/2011	Parent Involvement	\$725.00	\$725.00	A, C, G, F
Title II, Part D – ARRA, NOGA ID: 10553001154901						
11	PO 445639	7/20/2010	Educational Technology	\$10,800.00	\$0.00	F
ARRA Title XIV SFSF, NOGA ID: 10557001154901						
12	All	10/26/09 – 07/06/2010	ALL (ie Cox Contractors)	\$1,311,688.00	\$1,311,688.00	D, F
Total Non-Payroll Questioned Cost					\$1,312,413.00	

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

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(e.g.: executed contract, purchase order, payment authorization form, expense reimbursement, Form W-4, etc).

- F – The purchase order was issued prior to the date 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.

Appendix B						
Item No.	Ref. Number	Payroll Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001154901						
1	283-6112	12/18/2009	Carolyn Flournoy	\$75.00	\$75.00	F, H
2	283-6112	10/23/2009	Ashley Wulf	\$65.00	\$65.00	F, H
3	283-6119	6/25/2010	John Hill	\$4,850.17	\$0.00	
Title I, Part A - ARRA, NOGA ID: 10551001154901						
4	285-6119	12/18/2009	Lenette Shadow	\$4,639.75	\$0.00	
5	285-6119	5/25/2010	Karen Fallin	\$155.70	\$155.70	F, H
6	285-6119	12/17/2010	Allison Johnson	\$4,639.75	\$0.00	
7	285-6129	10/25/2010	Carrie Weeks	\$2,500.00	\$0.00	
ARRA Title XIV SFSF, NOGA ID: xx557001154901						
8	266-6119	9/24/2010	Angela Barbee	\$3,249.17	\$0.00	
9	266-6112	2/25/2011	Christie Noble	\$60.00	\$0.00	
Total Payroll Questioned Cost					\$295.70	

Payroll Attributes Tested

- A - Position(s) approved in the budget.

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- 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 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.

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Attachment B: Subrecipient's Response to Auditors' Report

I, Mr. Hockenberry, received the preliminary letter of findings dated September 23, 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 Center ISD (the subrecipient) closely read the auditor's preliminary letter of findings and thoughtfully considered the auditors' findings, general conclusion, assessment of risk and recommendation discussed therein. Accordingly, I hereby acknowledge that

JH
(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		
02		
03		
04		
05		

I, the undersigned, attest and affirm that our response above and the supporting attachments A through H, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated September 23, 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 April 25, 2011.

James Hockenberry
Superintendent's Signature

10/7/11
Date Signed

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Attachment C: Subrecipient's Proposed Corrective Action

Finding/Observation: #1 The subrecipient expended Title I, Part A-ARRA grant funds for costs not allowed as per the grant guidelines.

Actions taken or planned for correction:

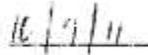
See Exhibit A. Journal Entry number 005175 was posted on June 29, 2011 to correct the coding for the unallowable cost. The journal entry removed the expenditure from the grant fund.

Responsibilities and timetable for the above actions:

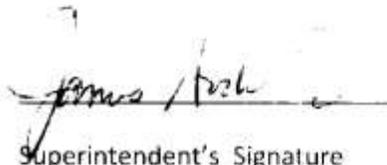
The Special Programs Director will ensure compliance with the grant requirements for all allowable costs for the Title Grants. Policies and procedures are being reviewed and updated to more clearly define the role of the employees responsible for compliance of allowable costs, complying with laws, regulations, and the provisions of grant agreements. The Director will review and approve payment for expenditures and then submit to the Business and Finance Office for payment.



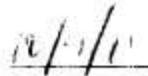
Fiscal Contact Signature



Date Signed



Superintendent's Signature



Date Signed

October 26, 2011

Mr. James Hockenberry
Superintendent
Center Independent School District

Subject: Final Letter of Findings and Observations, Page 19

Attachment C: Subrecipient's Proposed Corrective Action

Finding/Observation: #2 The subrecipient failed to maintain adequate and sufficient source documentation to support the payroll cost charged to the grant funds.

Actions taken or planned for correction:

See Exhibit B, C, D, E, and F. Updated forms for supplemental pay agreements for substitutes and forms for extra duty pay for employees have been implemented for Federal Grant Funds.

Time and Effort Certification forms have been updated to indicate semi-annual certification for 100% funded employees and monthly certification of split-funded employees for Federal Grant Funds.

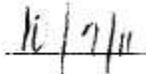
Timesheets have been updated that indicate the activities performed for split-funded employees.

Responsibilities and timetable for the above actions:

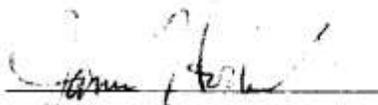
Employees must report their activities and/or extra duty to the office of the Special Programs Director or Special Services Director. The Directors will review and approve the applicable form listed above for correct coding and allowable activity. The Directors will submit to the Payroll Department for payment.



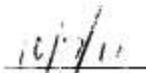
Fiscal Contact Signature



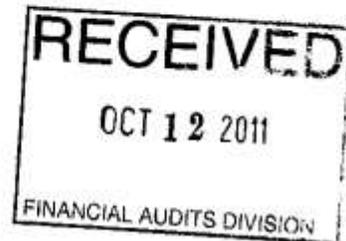
Date Signed



Superintendent's Signature



Date Signed



October 26, 2011

Mr. James Hockenberry
Superintendent
Center Independent School District

Subject: Final Letter of Findings and Observations, Page 20

Attachment C: Subrecipient's Proposed Corrective Action

Finding/Observation: #3: The subrecipient did not demonstrate that it complied with Davis Bacon Act (Section 1606) provisions of ARRA.

Actions taken or planned for correction:

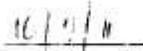
EXHIBIT G & H. A budget amendment was approved and issued by TEA on June 22, 2011. The budget amendment removed the infrastructure project from the program budget and corrected the questioned cost. Amendment Number 01 was approved for payroll cost under Title XIV.

Responsibilities and timetable for the above actions:

Corrective action has been completed by Director of Finance.



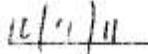
Fiscal Contact Signature



Date Signed



Superintendent's Signature



Date Signed

October 26, 2011

Mr. James Hockenberry
Superintendent
Center Independent School District

Subject: Final Letter of Findings and Observations, Page 21

Attachment C: Subrecipient's Proposed Corrective Action

Finding/Observation: #4: The subrecipient did not demonstrate that it complied with Buy American Act (Section 1605) provision of ARRA.

Actions taken or planned for correction:

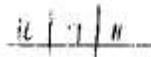
EXHIBIT G & H. A budget amendment was approved and issued by TEA on June 22, 2011. The budget amendment removed the infrastructure project from the program budget and corrected the questioned cost. Amendment Number 01 was approved for payroll cost under Title XIV.

Responsibilities and timetable for the above actions:

Corrective action has been completed by Director of Finance.



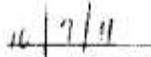
Fiscal Contact Signature



Date Signed



Superintendent's Signature



Date Signed

October 26, 2011

Mr. James Hockenberry
Superintendent
Center Independent School District

Subject: Final Letter of Findings and Observations, Page 22

Attachment C: Subrecipient's Proposed Corrective Action

Finding/Observation: #5: 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 adequately comply with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.

Actions taken or planned for correction:

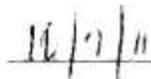
The District took corrective action following the auditor's visit and implemented procedures to calculate FTEs for substitute pay for the quarter ending June 30, 2011. The FTE calculation for substitutes and/or extra duty pay is calculated as total hours worked in the quarter divided by the number of hours in the standard full-time quarter. The procedures and calculations were also carried forward into the Education Jobs Grant reporting quarter ending September 30, 2011.

Responsibilities and timetable for the above actions:

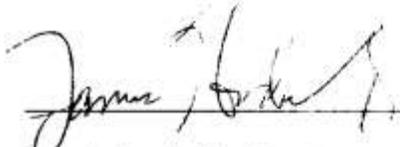
Corrective actions have been completed by Director of Finance.



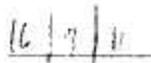
Fiscal Contact Signature



Date Signed



Superintendent's Signature



Date Signed