

September 21, 2011

Rev-16-240-903-2-2011

VIA UNITED STATES CERTIFIED MAIL

Mr. Roberto J. Santos
Superintendent
United Independent School District
201 Lindenwood Drive
Laredo, TX 78045-2499

Subject: Final Letter of Findings and Observations

Dear Mr. Santos:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to United Independent School District (CDN: 240-903) (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 10, 2011. Your response to the preliminary letter of observations and findings dated July 20, 2011 has been incorporated into the body of this final letter of findings and observations 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 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
Cory Green, Director, Division of Grants Administration

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 2

Table of Contents

Background	3
General Observations.....	3
Attachment A: Summary of Auditors' Findings.....	6
Summary of Audit Objectives, Scope and Methodology	11
Acronyms and Abbreviations Used In This Letter	13
Appendix A.....	14
Appendix B.....	16
Attachment B: Subrecipient's Response to Auditors' Report.....	17
Attachment C: Subrecipient's Proposed Corrective Action.....	18

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 3

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 United Independent School District (CDN: 240-903) 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 December 20, 2010 the subrecipient filed expenditure reports to claim a total of \$24,204,022.56 in expenditures from a total of \$42,419,060 ARRA funded grants awarded to the subrecipient (refer to Table A below).

TABLE A			
Expenditures of NOGAs Awarded to United ISD as of December 20, 2010			
NOGA ID	NOGA Description	Amount Awarded	Amount Expended
10554001240903	IDEA B Formula – ARRA-LEA	\$8,319,066.00	\$3,366,510.64
10555001240903	IDEA B Pre-School – ARRA-LEA	\$215,017.00	\$7,115.05
10551001240903	Title I, Part A – ARRA/STIMULUS	\$9,363,804.00	\$5,871,437.56
10553001240903	ARRA - Title II, D Technology	\$294,960.00	\$228,830.84
10557001240903	ARRA Title XIV SFSF (2009-2010)	\$12,257,868.00	\$12,257,868.00
11557001240903	ARRA Title XIV SFSF (2010-2011)	\$11,918,345.00	\$2,423,134.22
10551004240903053	Title I, SIP – ARRA/STIMULUS	\$50,000.00	\$49,126.25
Total Amount Awarded		\$42,419,060.00	\$24,204,022.56

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

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 4

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 and Finding #2)

2. **Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports filed by the subrecipient and the documentation in support of the data accumulated and reported to TEA and noted that the subrecipient complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.
3. **Observations on ARRA Infrastructure Expenditures:** Auditors examined the infrastructure project and noted in certain instances, 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 Observation #1)

Overall Conclusion

Based upon their review of the subrecipient's records, auditors observed that 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 partially concurred with the auditors' findings and subsequently provided additional support documentation and corrective action plans. See Attachment B and C.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 5

Auditor's Addendum

Auditors examined the subrecipient's response dated July 20, 2011 to the Preliminary Letter of Observations and Findings and the documentation submitted in support of the response. Based on their examination, auditors observed that the subrecipient concurred with Finding #1. Accordingly, auditors removed the questioned costs for Finding #1. The subrecipient did not agree with Finding #2 and partially concurred with Observation #1. Auditors did not concur with the subrecipient's response to Finding #2.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 6

Attachment A: Summary of Auditors' Findings

Observations on Subrecipient's Administration of ARRA awards

Finding #1. The subrecipient expended grant funds to purchase items that were not approved under the budget category and/or not approved as a line item in the budget for the applicable grant application as amended.

Statement of Fact

Auditors selected a total sample of fifteen (15) non-payroll transactions including four (4) transactions from IDEA-B Formula – ARRA, (fund code 283), one (1) transaction from IDEA-B Preschool – ARRA, (fund code 284), four (4) transactions from Title I, Part A – ARRA (fund code 285), two (2) transactions from Title II, Part D – ARRA (fund code 279), and four (4) transactions from 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) The subrecipient expended grant funds for items under object code 6300 that required special approval. The subrecipient purchased computer software items in fund IDEA-B Preschool funding, which was not an approved item in the budget for the applicable grant application as amended. (Refer to Item #5 in Appendix A)

Based on their examination of the subrecipient's accounting and other grant records, auditors noted that of the 15 non-payroll transactions tested, 1 transaction failed the above attribute that would have demonstrated compliance with 34 CFR 80.20(b)(5). Accordingly, auditors questioned \$2,580 in non-payroll costs charged to the grant. Additionally, auditor's observed that of the 15 non-payroll transactions tested, 1 transaction had missing documentation such as a purchase order or other accounting record. Refer to Appendix A.

Conclusion

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

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 7

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 Finding #1. Refer to Attachment C.

Auditor's Addendum

Auditors reviewed the subrecipient's response and concur with the subrecipient's response and corrective action, accordingly, auditors removed the questioned costs for Finding #1.

Finding #2. The subrecipient did not allocate Title I, Part A – ARRA grant funds to participating campuses in accordance with requirements promulgated in section 1113 (c) and 1114 (b) of Public Law 107-110.

Statements of Fact

Auditors reviewed the documentation to support the planning and budgeting of the subrecipient's Title I, Part A-ARRA funds and reviewed a sample of the subrecipient's campus allocations.

Specifically, auditors observed the following instances of noncompliance in the subrecipient's distribution of the Title I, Part A – ARRA funding.

- a) In reviewing the campus allocation of Title I, Part A ARRA funds, auditors observed that the subrecipient used the correct methodology to allocate regular Title I, Part A funds to eligible campuses. However, the subrecipient did not follow the same methodology to allocate for Title I, Part A – ARRA funds to students in eligible campuses. For example, allocations to three of the subrecipient's four high schools received the same amount (\$347,159), therefore auditors determined that Title I, Part A ARRA grant fund allocations were not allocated per grant rules, regulations, and requirements as per ESEA section 1113(c), and to meet the specific needs of their students (ESEA section 1114(b)).
- b) The subrecipient operated a schoolwide program without consolidating funds. However, the subrecipient budgeted Title I, Part A ARRA funds under object code 8911 which is generally used to budget grant funds under the operation of schoolwide program with consolidation of Title I, Part A funds with other funding sources.

Conclusion

The subrecipient's failure to implement and comply with the program guidelines of Title I, Part A

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 8

– 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

The subrecipient should follow the program provisions and guidelines for allocation grant funds. The subrecipient should also implement effective budgetary and programmatic controls 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

Subrecipient did not concur with Finding #2.

Auditor's Addendum

Auditors reviewed the subrecipient's response to Finding #2 and do not agree with the subrecipient. The subrecipient failed to provide a rank order listing of campus allocations or per pupil amount that met the requirements of 34 CFR 200.78(a)(1). Instead, according to the subrecipient's response, the subrecipient allocated funding based on district and campus need assessment for technology. This would be sufficient at district level funding (reserves) as well as campus allocations, provided the subrecipient followed the campus allocation rules in 34 CFR 200.78(a)(1). Those rules require that the subrecipient allocate Title I, Part A (includes ARRA) funds to campuses based on the following steps:

As per guidance (Appendix 10) provided by TEA, an LEA that is a Multiple Attendance Area, such as United ISD, must allocate funds to campuses in rank order on the basis of the total number of low-income students in each attendance area.

- The LEA is not required to allocate the same per-child amount to each campus; however, the LEA must not allocate a greater per-child amount to a campus with a lower poverty rate than it allocates to campuses with higher poverty rates. Auditors sampled campus allocations of Title I – ARRA and observed that five (5) middle school campuses received the same campus allocation (\$192,337.00). In the sample, auditors observed that United South Middle School (with 88.6% low income students) received \$192,337 which equaled to \$155.61 per student. However, United Middle School (with 50.5% low income students) received the same allocation which equaled to \$200.14 per student. By allocating equal amounts to both campuses, the subrecipient ended up funding a higher amount per student to a campus with a lower percentage of low income students, than to a campus with a higher percent of low income student, which is not allowed.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 9

- After an LEA has ranked all of its school attendance areas using the same measure of poverty, it must serve, in rank order of poverty, its areas above 75 percent poverty, including any middle schools or high schools.
- Only after an LEA has served all of its areas with a poverty rate above 75 percent may it serve lower-ranked areas. The LEA has the option to 1) continue on with the district wide ranking or 2) rank the remaining areas by grade span groupings.
 - ◆ The same district wide poverty average must be used if the LEA chooses to continue with the district wide ranking.
 - ◆ For ranking by grade span groupings, the LEA may use 1) the district wide low-income average or 2) the grade span poverty averages for the respective grade span groupings.
 - ◆ An LEA that has no school attendance areas above 75 percent poverty may choose to rank district wide or by grade span groupings.
 - ◆ An LEA's organization of its schools defines its grade span groupings. For example, if an LEA had elementary schools, middle schools, and high schools, the grade span grouping would be grades K-5, 6-8, and 9-12. To the extent an LEA has schools that overlap grade spans (e.g., K-5, K-8, 6-8) the LEA may include a school in the grade span in which it is most appropriate.

Auditor's also reviewed the subrecipient's response regarding budgeting and coding expenditures to 8911. Auditors noted that the subrecipient did not provide a valid reason such as consolidation of Title I – ARRA funds with other federal funding sources to allocate funds in object category 8911. For further guidance, please refer to guidance provided by TEA in Appendix 9 of NCLB. Based on the subrecipient's responses, auditors determined that the conclusion and recommendation of Finding #2 have remained unchanged.

Observation #1 In some instances, the subrecipient's expenditures of IDEA B Formula ARRA-LEA funds for the infrastructure investment project did not adequately comply with federal laws, regulation and/or applicable grant requirements.

Statements of Fact

Auditors reviewed the documentation provide in support the infrastructure project in progress by the subrecipient as well as conducted an onsite visit of the infrastructure project (Cherish Center). Specifically, auditors observed the following instances of noncompliance:

- a) Auditors examined the documentation pertaining to the infrastructure project and observed that the contract for the project did not specify compliance with Buy American and Davis Bacon Act provision of ARRA. However, the bidding documentation for the project included such assurances which were incorporated into the construction specification book, part of binding contract. Auditors also observed that the subrecipient did not have a monitoring plan in place to ensure compliance with such requirements.
- b) During the onsite visit of the project in progress, auditors observed that some of the materials used in the project did not comply with Buy American provisions of ARRA.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 10

- c) During the onsite visit of the project in progress, auditors observed signage to comply with Davis Bacon Act. However, auditors also observed that the subrecipient did not maintain any documentation demonstrating that it was validating contractor's wage rates with the local prevailing wage rate.

Conclusion

The subrecipient's failure to implement and comply with provisions of Section 1605 (Buy American) and Section 1606 (Davis Bacon) of ARRA 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.

Recommendations

Subsequent to the review conducted, the subrecipient has implemented a monitoring plan to ensure compliance of the provisions of Section 1605 (Buy American) and Section 1606 (Davis Bacon) of ARRA. The monitoring plan entails the subrecipient's internal audit department to conduct reviews of the project periodically to ensure compliance and submit documentation of such to TEA. Auditors recommend that the monitoring plans include examining the materials being utilized in the project to ensure compliance with the Buy American Act provisions as well as monitoring the payroll records to ensure compliance with the Davis Bacon Act provisions of ARRA. In order to avoid the questioned costs for the project, this monitoring plan should be continued until the project is complete to ensure reasonable assurance that the subrecipient is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

Subrecipient's Response

The subrecipient partially concurred with the auditor's observation #1. Refer to Attachment C.

Auditor's Addendum

Auditors reviewed the subrecipient's response and noted that, although during the onsite visit, auditors did not observe a process in place to comply with all of the requirements in Sections 1605 and 1606 of ARRA, the subrecipient has implemented a monitoring plan with their internal audit department, as stated in the preliminary letter of Findings issued June 21, 2011. Additionally, while auditors were onsite, the subrecipient did not provide any supporting documentation that indicated the subrecipient was validating wage rates (as required in Section 1606 of ARRA). This provision also requires wage sheets to be submitted weekly, which was not observed. However, subsequent to the auditors onsite visit, the subrecipient, as per the subrecipient's monitoring plan, the subrecipient is collecting certified payroll sheets and ensuring that pay rates meet or exceed the local prevailing rate.

Required Action: The subrecipient should ensure that all actual expenditures for infrastructure projects comply with the rules and regulations of the Davis Bacon (1606) and Buy American (1605) provisions of ARRA.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 11

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
10554001240903	IDEA B Formula – ARRA-LEA	05/01/2009	09/30/2011
10555001240903	IDEA B Pre-School – ARRA-LEA	05/01/2009	09/30/2011
10551001240903	Title I, Part A – ARRA/STIMULUS	05/19/2009	09/30/2011
10553001240903	ARRA - Title II, D Technology	12/10/2009	09/30/2011
10557001240903	ARRA Title XIV SFSF	09/28/2009	09/30/2011
11557001240903	ARRA Title XIV SFSF	09/01/2010	09/30/2011
10551004240903053	Title I, SIP – ARRA/STIMULUS	09/15/2009	09/30/2010

Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on February 10, 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.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 12

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.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 13

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

September 21, 2011

Mr. Roberto J. Santos
 Superintendent
 United Independent School District

Subject: Preliminary Letter of Findings, Page 14

Appendix A						
Item No.	Ref. Number	Check Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001240903						
1	12015	6/22/2010	TO RE-CLASSIFY EXPENSE	\$141,358.00	\$ 0	
2	10003233-01	5/13/2010	Longhorn Bus - 53 SPECIAL ED PASSENGER B	\$181,940.00	\$ 0	
3	10015130-01	8/31/2010	Kell Munoz Archi - ARCHITECTURAL AND ENGINEE	\$27,474.05	\$ 0	
4	10014743-01	8/26/2010	JADER LOON COMPAN - GREENHOUSES WITH MOTORIZE	\$53,963.00	\$ 0	
IDEA-B Preschool - ARRA, NOGA ID: 10555001240903						
5	10015250-08	8/31/2010	CURRICULUM ASSOC	\$2,580.00	\$2,580.00	E
Title I, Part A – ARRA, NOGA ID: 10551001240903						
6	10000980-03	11/5/2009	CDW-GOV ERNMENT	\$59,251.31	\$ 0	
7	12703	8/31/2010	TO POST 10/05 CK RUN/ Peoples Education	\$86,340.00	\$ 0	
8	10006396-01	1/25/2010	RAND MC NALLY	\$20,216.06	\$ 0	
9	10005771-02	1/25/2010	SEQUEL DATA SYST - QUOTE 2021 HP IDS 6730B -	\$1,688,868.91	\$ 0	
Title II, Part D – ARRA, NOGA ID: 10553001240903						
10	10004713-0	1/14/2010	SEQUEL DATA SYST- HP T5370 S2100 2GF/1GR TH	\$46,041.00	\$ 0	
11	10004811-0	12/14/2009	AUSTIN RIBBON & - CLASSROOM PRINTE	\$10,478.00	\$ 0	
ARRA Title XIV SFSF, NOGA ID: 10557001240903						
12	10013365-01	6/28/2010	WAL MART – Open Purchase Order	\$2,863.17	\$ 0	F
13	V212759	3/25/2010	TEXAS A & M INTE - TUITION ASSISTANCE	\$103,916.00	\$ 0	A
14	12336	8/25/2010	RECLASS PO#10012790	\$42,500.00	\$ 0	
15	V218947	8/2/2010	E CHAL K - E RATE YR 13	\$93,418.00	\$ 0	
Total Non-Payroll Questioned Cost					\$2,580.00	

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 15

Non-Payroll Attributes Tested

- A - The accounting record included an original and complete internal accounting document, i.e. executed contract, purchase order, payment authorization form, expense reimbursement form, travel reimbursement form, payroll schedule, payroll authorization form, Form W-4, employment contract, etc.
- B - The accounting record included an original and complete third party document, i.e. utility billing statement, itemized receipt, itemized invoice, bank deposit.
- C - The accounting record indicated that the transaction was approved by an authorized individual.
- D - The purchase order was issued prior to the date of the vendor's invoice.
- E - The item was approved in the budget.
- F - The activity was allowed as per the applicable program requirements.
- G - The activity was noted in District/Campus improvement plan as applicable.
- H - The amount was obligated within the grant period.
- I - Complied with Section 1511 (Web Posting Requirements).
- J - Complied with Section 1605 (Buy American Act).
- K - Complied with Section 1606 (Davis Bacon Act).

September 21, 2011

Mr. Roberto J. Santos
 Superintendent
 United Independent School District

Subject: Preliminary Letter of Findings, Page 16

Appendix B						
Item No.	Ref. Number	Check Date	Payee	Costs Examined	Amount Questioned	Attribute Failed
IDEA-B Formula - ARRA, NOGA ID: 10554001240903						
1	283-6118	8/31/2010	Kay S Ascencio	\$1,537.50	\$ 0	C
Title I, Part A - ARRA, NOGA ID: 10551001240903						
2	285-6118	12/31/2010	Araceli L Serrano-Piche	\$383.33	\$ 0	C
3	285-6112	12/31/2010	Gusatvo Vasquez	\$200.00	\$ 0	C
Title II, Part D - ARRA, NOGA ID: 10553001240903						
4	279-6112	1/31/2010	Oscar Trujillo	\$300.00	\$ 0	C
ARRA Title XIV SFSF, NOGA ID: 10557001240903						
5	266-6119	2/17/2010	Rosa De Hoyas Vargas	\$5,392.58	\$ 0	C
Total Payroll Questioned Cost					\$ 0	

Payroll Attributes Tested

- A - Position(s) approved in the budget.
- B - Position supported by laws rules regulations and grant application.
- C - Signed and dated job description provided.
- D - Salary authorization and Personnel Action 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 - After the fact distribution of work performed. Payroll records match with activity reports.

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 17

Attachment B: Subrecipient's Response to Auditors' Report

I, Mr. Roberto Santos, received the preliminary letter of findings dated May 12, 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 United 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

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

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

RS
(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.

Findings / Observation	Subrecipient Concurred	
	Yes	No
01	✓	
02		✓
03	✓	✓

I, the undersigned, attest and affirm that our response above and the supporting attachments, 1 through 4, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated June 21, 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 June 21, 2011.

Roberto J. Santos
Superintendent's Signature

7/20/11
Date Signed

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 18

Attachment C: Subrecipient's Proposed Corrective Action

Finding / Observation: 1

Actions taken or planned for correction:

We concur with the item referred to in finding 1 relating to a purchase of a computer software item which found to be not approved in the IDEA-B Preschool funding grant. We have reversed the expenditure of \$2,580 initially made to the grant and have posted the reversal transaction to our ledgers so future grant expenditure reports will reflect the "no charge" to the grant. See Attachment 1 which is a copy of our transaction reversing the charge in our ledgers.

In response to the observation for the transaction which had missing documentation such as a purchase order or other accounting record, as part of our internal controls, we will include a purchase order and other relevant accounting records for payments that will be made to our local higher education institutions for tuition paid on behalf of our students. In reference to the payroll attributes tested in Appendix B, we have updated our procedures manual to include a step to ensure that a signed and dated job description is obtained for all federally funded positions. See Attachment 2 which is an excerpt of our updated procedures.

Responsibilities and timetable for the above actions:

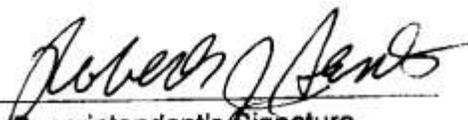
See Attachment 1 for action taken.



Fiscal Contact Signature
(Preparer)

7/20/11

Date Signed



Superintendent's Signature
(Approver)

7/20/11

Date Signed

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 19

Finding / Observation: 2

Actions taken or planned for correction:

The district disagrees with this finding. We feel that we were compliant in allocating funds to our campuses based on the fact that all our campuses are school-wide and have a 40% or higher low-income student population, therefore, we are able to service all children, to include children of low-income families across our district. At the same time we were able to ensure that we would adhere to the policies and procedures within the realm of section 1113 (c)-allocations and section 1114 (b)- components of a school wide program, being that these monies were to be spent quickly. The district feels that reasonable adjustments to the limitation on State administration were perhaps not issued by USDE, such as a special rule for flexibility within the scope of the distribution of allocations to campuses. Nevertheless, we were able to ensure transparency and accountability, as we expended these one-time funds with careful planning to ensure effective reform. We feel we expended these expeditiously, sensibly and equitably to ensure that we invested in purchases that would leave lasting results for students, teachers, as well as the campuses and the district's capacity for improvement, while at the same time integrating coherent improvement strategies that were aligned with core reform goals.

Monies were allocated based on an analysis of each school's technology holdings based on individual campus needs and a determination was made as to the items that would need to be purchased to achieve an acceptable level of technology. Based on the individual campus comprehensive needs assessment, discussion of each campus's needs were held in committee to include Curriculum and Instruction, campus principals, and an array of other departments, to include the technology department.

The district feels that even though monies were placed under object code 8911, funds were expended for reasonable and necessary costs to accomplish program objectives and an integral part of the instructional program. Expenditures were consistent with prudent business practice and were allowable under the authorizing program statutes, regulations and rules. The funds were not consolidated because we needed to expend these quickly as monies were a short-term investment that required much transparency and accountability and needed to be tracked separately.

Responsibilities and timetable for the above actions:

No action necessary.



Fiscal Contact Signature
(Preparer)

7/20/11

Date Signed



Superintendent's Signature
(Approver)

7/20/11

Date Signed

September 21, 2011

Mr. Roberto J. Santos
Superintendent
United Independent School District

Subject: Preliminary Letter of Findings, Page 20

Finding / Observation: 3

Actions taken or planned for correction:

We concur with your observation 1(b) in reference to "some materials used in the project did not comply with Buy American provisions of ARRA." The items deemed as non-compliant were removed and returned to the supplier. Other items were for another project that were erroneously delivered to worksite and these were also removed.

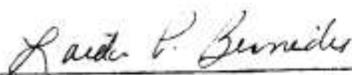
However, we disagree with the auditors observations on items 1(a) and 1(c) for the following reasons:

1. The bidding specifications included the necessary wording to ensure bidder was aware of the Buy American and Davis Bacon Act provisions of ARRA related to this contract. These bid specification are part of the contract and the contract states as such.
2. The Cherish Center Project contract was awarded on December 15, 2010, an award letter was sent on December 16, 2010, and a teleconference was held on December 17, 2010. The teleconference was in regards to the Buy American and Davis Bacon provisions and assurances related to this project and included the contractor, Construction Department Director, Asst. Supt. for Business and Finance and the Internal Auditor. This was followed up with an email dated on same day. See attachment 3. Further, a pre-construction meeting held on January 7, 2011 with the consultants, contractor, sub-contractors and district personnel and agenda items included the Buy American and Davis Bacon Act provisions of ARRA See attachment 4. The district was aware of the provisions related to this contract and plans were being put in place to ensure documentation would be provided to ensure compliance with such. We believe that this documentation serves to show the district's due diligence in starting our monitoring process for this project.

The internal audit department has prepared monthly monitoring reports to ensure compliance with both provisions. The reports address management's procedures in validating wage rates with the local prevailing wage rate which have included maintaining the documentation to demonstrate the validation. Copies of these monthly reports have been sent to TEA.

Responsibilities and timetable for the above actions:

No action necessary.



Fiscal Contact Signature
(Preparer)

7/20/11

Date Signed



Superintendent's Signature
(Approver)

7/20/11

Date Signed