April 18, 2012

DR-2-015-910-01-2012

VIA UNITED STATES CERTIFIED MAIL
VIA ELECTRONIC MAIL: bgotta@neisd.net

Dr. Brian Gottardy
Superintendent
North East Independent School District
8961 Tesoro Dr
San Antonio, TX 78217

Subject: Letter of Observations

Dear Dr. Gottardy:

Auditors from the Division of Financial Audits conducted a review of the Education Jobs Fund (NOGA ID #1155010015910) (the grant) awarded to North East Independent School District (CDN: 015-910) (the subrecipient) for the 2010-2012 school years. The review was conducted through written correspondence and was limited to the records provided by the subrecipient in response to the auditors' formal correspondence dated January 24, 2012 and other informal inquiries. This correspondence and its attachments constitute the auditor's letter of 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. You will be notified in the event a follow up to the review is scheduled. We appreciate your cooperation during the conduct of our correspondence review. Should you have any questions, please contact Lance McMillan (512) 463-9095.

Sincerely,

Lance McMillan
Grant Audits Unit
Division of Financial Audits

____/rh

cc: Mr. Dan Villareal, Chief Financial Officer, North East ISD, (dvilla2@neisd.net)
Roger Hingorani, Director, Grant Audits Unit, Division of Financial Audits
Sonya Etheridge, Director, Division of Financial Audits

Attachment A: Objectives, Scope, Methodology, Observations and General Conclusion

Objective, Scope, and Methodology

The review objective was to ascertain if the subrecipient complied with Parts 80.20 of Title 34 of the Code of Federal Regulations and other applicable federal statutes, regulations, and grant requirements. Auditors' focused on the fiscal practices developed and implemented by the subrecipient in support of the certain statutory, regulatory and other requirements pertaining to the grant noted in Table A, but their intention was not to examine every facet of the subrecipient's administration of the grant. Accordingly, the auditors' inquiry was limited to the records provided by the subrecipient.

Auditors reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. Auditors examined the financial records created and maintained by the subrecipient and assessed the subrecipient's internal controls over quality of data, budgetary process and the use of program funds.

TABLE A Individual NOGAs Selected for Review			
NOGA ID	**NOGA Title**	**Begin Date**	**End Date**
11550101015910	EDUCATION JOBS FUND	08/10/2010	09/30/2012

Summary of Auditors' Observations

Auditors examined the detailed general ledger, payroll journals, expenditures reports, quarterly reports and policies and procedures maintained by the subrecipient and assessed the subrecipient's internal controls over quality of data, budgetary process and the use of program funds. Based on their review of the documents provided by the subrecipient in response to their correspondence and other inquiries, auditors noted the following observations.

Description	Standard / Criteria	Observations
1. Financial Reporting – The subrecipient's accounting records demonstrate accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.	34 CFR 80.20 (b)(1)	None
2. Accounting Records – The subrecipient must maintain accounting records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must adequately comply	34 CFR 80.20 (b)(2) and/or Section 1.4 of FASRG	Observation # 2

with Section 1.4 of the Financial Accountability System Resource Guide (FASRG) and/or provide sufficient or adequate accounting data for the transactions recorded.		
3. Internal Controls – The subrecipient must maintain effective control and accountability for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.	34 CFR 80.20 (b)(3)	Observation # 1
4. Budgetary Control – The subrecipient must compare actual expenditures or outlays with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement.	34 CFR 80.20 (b)(4)	Observation # 3
5. Allowable Costs - The subrecipient must comply with applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements. Subrecipients must ensure costs are reasonable, allowable, and allocable.	34 CFR 80.20(b)(5) and/or OMB-A87	None
6. Source Documentation – The subrecipient's accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.	34 CFR 80.20 (b)(6) and/or OMB-A87	None
7. Cash Management – The subrecipient must have in place procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.	34 CFR 80.20 (b)(7)	None

8. The subrecipient utilized the Education Jobs Fund grant funds, in accordance with Public Law 111-226, to fund jobs exclusively at the campus – level.	PUBLIC LAW 111–226	None
9. The subrecipient complied with Section 1512 of the American Recovery and Reinvestment Act (ARRA) which included: a) The number of jobs created/retained and funded by ARRA b) The description of jobs created/retained and funded by ARRA	Section 1512 of ARRA	None

General 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), Public Law 111-226, and ARRA reporting requirements. The auditors' observations are discussed in Attachment B.

Questioned Costs

None

Recommendations

Please review this letter carefully and take appropriate corrective actions to address the auditors' observations, recommendations and required actions. If corrective actions are taken, the subrecipient should maintain documentation to support the corrective actions taken, and make the documentation available for auditors and/or other over-sight entities if requested.

Attachment B: Auditors Observations

Based on their review of the documents provided by the subrecipient in response to their correspondence and other inquiries, auditors observed the following issues:

Observation # 1: The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(3). The subrecipient's policies and procedures did not adequately describe the processes, authorizations, records and other internal controls required by the subrecipient to ensure accurate, current, and complete disclosure of the financial results of each federally-sponsored project.

Specifically, auditors reviewed the policies and procedures maintained by the subrecipient and observed the subrecipient did not or inadequately addressed the following policies and procedures.

Description of Policy and Procedure		Inadequately Documented	Not Documented
1	The APM (Administrative Procedural Manual) included a specific administrative (accounting) procedure that addressed the use of encumbrances for purchase orders and other obligations.		✓
2	The APM included a specific administrative procedure describing the third-party documentation (e.g., invoices) required to support the disbursement of grant funds.		✓
3	The APM included a specific administrative procedure describing the subrecipients property management policy and property disposal policy.		✓
4	The APM included a specific administrative procedure requiring the filing of written correspondence with the TEA regarding the disposal of personal or real property purchased with federal funds.		✓
5	The APM included a specific administrative procedure that addressed the subsequent approval of any expenditure that exceeded the approved amount.		✓
6	The APM included a specific administrative procedure that described the process that subrecipient personnel were required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit.		✓
7	The subrecipient's policies permitted the use of corporate accounts and/or revolving lines of credit, The APM included a specific administrative procedure that identified who was authorized to use this type of account.		✓
8	The subrecipient's policies permitted the use of corporate accounts and/or revolving lines of credit, the APM included a specific administrative procedure that required subrecipient personnel to		✓

Description of Policy and Procedure		Inadequately Documented	Not Documented
	document the business related reason for using this form of payment.		
9	The subrecipient's policies permitted the use of corporate accounts and/or revolving lines of credit, the APM included a specific administrative procedure that identified who was responsible for the amounts charged to the corporate account or line of credit.		✓
10	The subrecipient's policies permitted the use of corporate accounts and/or revolving lines of credit, the APM included a specific administrative procedure that described how control was maintained over the corporate account or line of credit.		✓
11	The APM included a specific administrative procedure acknowledging or denying the use of debit cards or gift cards to disburse grant funds.		✓
12	The APM included a specific administrative procedure that required the employee to disclose an after-the-fact distribution of 100 percent of the actual time spent on each activity and each fund source on the personnel activity report.	✓	
13	The APM included a specific administrative procedure that required each employee and their immediate supervisor to sign and date a detailed job description.	✓	
14	The APM included a specific administrative procedure that required that each job description describe the work performed by the employee for each program/fund source.	✓	
15	The APM included a specific administrative procedure that required the preparation of an internal accounting record (e.g., payroll authorization form, personnel action form) for each position.		✓

Description of Policy and Procedure		Inadequately Documented	Not Documented
16	The APM included a sample internal accounting record for positions funded from grants. The record included data identifying the individual employed, their functional title, position number, the amount of their salary and other compensation charged to each local, state or federal fund source/program.	✓	

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

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

Auditors noted the following observation during their review of the subrecipient's expenditure reports and financial accounting records:

The subrecipient's accounting records did not utilize the account codes permitted in the FASRG. The subrecipient used object code 6111, which is an object code reserved for future state definition.

Effect

The subrecipient's failure to implement an adequate system of internal controls may place grant funds at risk of being misused and impede the subrecipient's ability to expend grant funds for the purposes stipulated and costs allowed in federal law and rules.

Conclusion

The subrecipient's internal control weaknesses may adversely affected its ability to comply with 34 CFR 80.20 (b)(2) and/or Section 1.4 of FASRG.

Observations Type

Compliance/Internal Control

Recommendation: 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.

Observation # 3: The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20 (b)(4). Specifically, auditors noted that the subrecipient's budget did not indicate that the subrecipient maintained effective budgetary control of grant expenditures.

Specifically, auditors noted that the budget, as amended and documented in the detailed general ledger, did not agree to the budget approved by the TEA. The general ledger did include an initial appropriation at the beginning of the grant period (e.g., opening entries recorded on the general ledger) but subsequent adjustments to the appropriation were not made (e.g., adjusting entries that increase the budgeted amounts as approved by TEA).

Effect

The subrecipient's failure to implement budgetary controls of grant funds 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.

Conclusion

The subrecipient's internal control weaknesses may adversely affect its ability to comply with 34 CFR 80.20 (b)(4).

Observations Type

Compliance/Internal Control

Recommendation: The subrecipient should monitor the effective implementation of its internal controls over federal awards by ensuring that the individual responsible for the budgeting of award funds periodically review the approved budget from TEA.

Federal Requirements

As part of their planning activities and during the course of their review, auditors identified certain requirements applicable to the grants. Specifically, auditors referenced the following requirement during the course of their review.

Section 80.20 of Title 34 of the Code of Federal Regulations, Standards for financial management systems.

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

(c) An awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as part of a pre-award review or at any time subsequent to award.

Education Jobs Fund - Guidance

Please refer to the following TEA website:
http://www.tea.state.tx.us/index4.aspx?id=%202147500359&menu_id=934&menu_id2=941

Office of Management and Budget (OMB) Guidance on Section 1512 Reporting

Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates "ARRA section 1512 Reporting" issued by the OMB is located at **http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf.**

Federal Provisions and Assurances:

The General Provisions and Assurances, the Debarment and Suspension Certification, the Lobbying Certification, and the Program-Specific Provisions and Assurances related to ARRA Section 1512 reporting, including reporting jobs paid with the Education Jobs Fund, in the 2009-2010 and/or 2010-2011 ARRA Title XIV State Fiscal Stabilization Fund (SFSF) grant applications are herby incorporated by reference and the grantee is obligated to comply with them in total. Guidance related to ARRA Section 1512 quarterly reporting is available at:
http://www.tea.state.tx.us/index4.aspx?id=7860&menu_id=934&menu_id2=941

Public Law No. 111-226 - TITLE I EDUCATION JOBS FUND:

For requirements and guidance on the EDUCATION JOBS FUND please refer to:
http://www2.ed.gov/programs/educationjobsfund/public-law-no-111-226.doc