

May 9, 2012

DR-18-101-916-01-2012

VIA UNITED STATES CERTIFIED MAIL  
VIA ELECTRONIC MAIL: [supt-secretary@lpisd.org](mailto:supt-secretary@lpisd.org)

Mr. Lloyd W. Graham  
Superintendent  
La Porte Independent School District  
1002 San Jacinto St.  
La Porte, TX 77571-6496

Subject: Final Letter of Observations and Findings

Dear Mr. Graham:

Enclosed are the final results of a review conducted by Texas Education Agency (TEA) auditors. The review studied the administration of the Education Jobs Fund grant (NOGA ID: 11550101101916) (the grant) awarded to La Porte Independent School District (CDN: 101-916) 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, February 23, 2012, and other informal inquiries.

TEA's findings and observations, as a result of the review, are provided in this final report. This final report supersedes the preliminary report dated April 18, 2012. Your response to the preliminary report has been incorporated as appropriate, and is included as Attachments C, E, and F.

Although the records submitted by the subrecipient remain subject to review by appropriate federal and/or state oversight entities, TEA considers this review closed. You will be notified in the event that a follow up to the review is scheduled.

Should you have any questions, please contact Lance McMillan at (512) 463-9095.

Sincerely,

Lance McMillan  
Grant Audits Unit  
Division of Financial Audits

\_\_\_\_/rh

cc: Rhonda Cumbie, Chief Financial Officer, La Porte Independent School District,  
([cumbier@lpsd.org](mailto:cumbier@lpsd.org))  
Roger Hingorani, Director, Grant Audits Unit, Division of Financial Audits  
Sonya Etheridge, Director, Division of Financial Audits

Final Letter of Observations and Findings  
CDN: 101-916  
May 9, 2012

**Attachment A: Scope, Methodology, Summary of Observations and Findings, and General Conclusion**

Auditors' focused their review on the subrecipient's compliance with certain fiscal requirements applicable to the grant awarded to the subrecipient by the Texas Education Agency. However, auditors' did not intend to scrutinize and did not examine every facet of the subrecipient's administration of the grant. Accordingly, the auditors' inquiry was limited to the records provided by the subrecipient for the grant listed in Table A

Auditors reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. Auditors examined the detailed general ledger 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. Based on their review of the documents provided by the subrecipient in response to their correspondence and other inquiries, auditors noted their observations and findings in Attachment B.

<b>TABLE A Individual NOGA Selected for Review</b>			
<b>NOGA ID</b>	<b>NOGA Title</b>	<b>Begin Date</b>	<b>End Date</b>
11550101101916	EDUCATION JOBS FUND	08/10/2010	09/30/2012

**Summary of Auditors' Observations and Findings**

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.

<b>Description</b>	<b>Standard / Criteria</b>	<b>Observations/Findings</b>
1. Financial Reporting – The subrecipient's accounting records demonstrate accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant.	34 Code of Federal Regulations (CFR) 80.20 (b)(1)	None

<p>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 with Section 1.4 of the Financial Accountability System Resource Guide (FASRG) and/or provide sufficient or adequate accounting data for the transactions recorded.</p>	<p>34 CFR 80.20 (b)(2) and/or Section 1.4 of FASRG</p>	<p>None</p>
<p>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.</p>	<p>34 CFR 80.20 (b)(3)</p>	<p>Observation #1</p>
<p>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.</p>	<p>34 CFR 80.20 (b)(4)</p>	<p>None</p>
<p>5. Allowable Costs - The subrecipient must comply with applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements. Subrecipients must ensure costs are reasonable, allowable, and allocable.</p>	<p>34 CFR 80.20 (b)(5) and/or OMB-A87</p>	<p>Finding #1 (Removed)</p>

<p>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.</p>	<p>34 CFR 80.20 (b)(6) and/or OMB-A87</p>	<p>None</p>
<p>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.</p>	<p>34 CFR 80.20 (b)(7)</p>	<p>None</p>
<p>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.</p>	<p>PUBLIC LAW 111–226</p>	<p>Finding #1 (Removed)</p>
<p>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</p>	<p>Section 1512 of ARRA</p>	<p>None</p>

## **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), OMB A-87, Public Law 111-226, and ARRA reporting requirements. The auditors' observations and findings are discussed in Attachment B.

## **Required Action**

The subrecipient should review this letter and provide its response to Finding #1 on Attachment C, D, and/or E, and include any relevant documentation supporting its response.

## **Questioned Costs**

\$0.00

## **Subrecipient's Response**

The subrecipient did not concur with the auditors' findings and subsequently provided additional support documentation. See attachments C, E, and F.

## **Auditor's Addendum**

Auditors examined the subrecipient's response to the Preliminary Letter of Observations and Findings dated April 18, 2012 and the documentation submitted in support of the response. Based on their examination, auditors concur with the subrecipient's response and have adjusted the questioned costs to \$0.00.

## Attachment B: Auditors Observations and Findings

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
01	<p>The APM (Administrative Procedure Manual) included a specific administrative procedure describing the subrecipient's property management policy and property disposal policy.</p> <p>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.</p>		✓
02	<p>The APM included a specific administrative procedure that addressed the subsequent approval of any expenditure that exceeded the approved amount.</p>		✓
03	<p>The APM included a specific administrative procedure that required the retention of grant records for a period of five years.</p> <p>The APM included a specific administrative procedure that described the medium that the subrecipient used to retain records (i.e., paper records, electronic files, both), the location of its archived records (e.g., central administrative office, offsite storage facility), and the process for the inventory and disposal of records, including the individual(s) authorized to approve the disposal of records.</p>	✓	

## 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.

**Finding # 1:** The subrecipient did not demonstrate that it adequately complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(5)/(6), OMB-A87, and/or Public Law 111-126 for Education Jobs Funds program. Specifically, auditors noted that the subrecipient expended grant funds that did not constitute allowable costs or were not adequately supported.

Auditors noted that of the ten (10) payroll transactions tested, one (1) transactions failed various attributes that would have demonstrated compliance with 34 CFR 80.20(b)(5)/(6), OMB-A87, and/or Public Law 111-126 for Education Jobs Funds program.

Specifically, auditors observed the following instance of noncompliance and/or weakness in internal controls:

The job description of a Gifted and Talented Coordinator indicated district wide activities not eligible for Education Job program. Additionally, auditors noted the position is charged to organization code 999 (undistributed), not a specific campus level organization code. Activities and charges must be at the campus level as required by the grant provisions and guidance provided by TEA. Accordingly, auditors questioned \$1,428.57 in payroll costs charged to the grant. (Refer to Exhibit 1)

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

### Effect

The subrecipient's failure to implement adequate internal controls over expenditure of grant funds 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.

### Conclusion

The subrecipient's internal control weaknesses adversely affected its ability to comply with 34 CFR 80.20(b)(5)/(6) and/or OMB-A87.

### Finding Type

Compliance/Internal Control

### Questioned Costs

\$0.00

**Subrecipient's Response**

The subrecipient did not concur with the auditors' findings and subsequently provided additional support documentation. See attachments C, E, and F.

**Auditor's Addendum**

Auditors examined the subrecipient's response to the Preliminary Letter of Observations and Findings dated April 18, 2012 and the documentation submitted in support of the response. Based on their examination, auditors concur with the subrecipient's response and have adjusted the questioned costs to \$0.00.

**Exhibit 1**  
**Schedule of Questioned Costs and Observations for Payroll Costs**  
**(Grant Period: 2010 to 2012)**

<b>Exhibit 1 - Testing of Payroll Costs</b> <b>Education Job Funds</b> <b>NOGA ID: 11550101101916</b>						
Item No.	Ref. Number	Check Date	Payee	Costs Examined	Amount questioned	Attribute Failed
01	102369	1/31/2012	SUZANNE DELANY JONES	\$1,428.57	\$0.00	
<b>Total Questioned Costs</b>					<b>\$0.00</b>	

**Payroll Attributes Tested**

- a. Job description includes activities eligible for Education Jobs fund grant payment.
- b. Payroll authorization form, employment contract, salary authorization and/or personnel action form or other record identifying all of the sources of funding from which the employee was authorized to be paid on file.
- c. The position was located at the campus level.
- d. The payroll costs charged to the grant was within the grant period.
- e. The payroll costs charged to the grant was for a position eligible for Education Jobs Fund program funding.
- f. The payroll transaction was not supported by personnel activity reports for employees working both at the campus and district level.
- g. If the Education Jobs funds were used for early resignation/early retirement, evidence of the approval of such request in writing from TEA provided.

## 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.

### **Financial Accountability System Resource Guide (FASRG)**

Please refer to the following TEA website:  
<http://www.tea.state.tx.us/index4.aspx?id=1222>

### **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](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](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 hereby 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](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:**

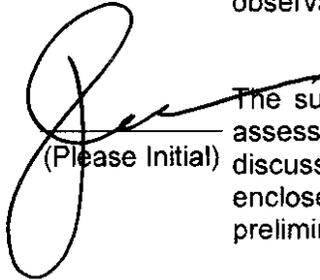
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For requirements and guidance on the EDUCATION JOBS FUND please refer to: <http://www2.ed.gov/programs/educationjobsfund/public-law-no-111-226.doc>

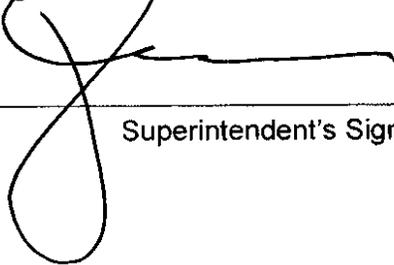
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**Attachment C: Subrecipient's Response to Auditors' Report**

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

 The subrecipient did not concur with the auditors' finding, general conclusion,  
(Please Initial) assessment of risk and recommendation and enclosed a written response  
discussing its disagreement. Refer to Attachment E. The subrecipient also  
enclosed copies of documents that support its disagreement with the auditors'  
preliminary letter of findings. Refer to Attachment(s) F through 6.

I, the undersigned, attest and affirm that our response above and the supporting attachments,  
E through 6, constitute an accurate and complete response from the subrecipient to  
the findings and recommendations discussed in the preliminary letter of observations and  
findings dated April 18, 2012 from the Division of Financial Audits.

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

02 May 12  
\_\_\_\_\_  
Date Signed



Response to Finding #1

Finding #1 indicates that your auditors believe the payroll charges for the Gifted and Talented Specialist (Suzanne Delany Jones) are not allowable charges based on failing the following three attributes:

- a. Job description include activities eligible for Education Jobs fund grant payment
- c. The position was located at the campus level
- e. The payroll costs charged to the grant was for a position eligible for Education Jobs Fund program funding

We feel that this position is an allowable charge. This position is a campus based position, not a district level position. We believe this is a misunderstanding based on reporting, rather than non-compliance. Following is an explanation of each attribute:

**Item a:** The job description submitted to you is a Model Job Description as developed by TASB. This is a broad description for employees of that type, and is used as a guideline. However, a more accurate personalized job description (dated 8/20/11) was developed specifically for that position before they were hired and should have been submitted to your auditors. I have attached this for your review as Attachment G.

While the Model Job Description makes the position sound like a district wide position, the actual day to day duties are exclusively campus level in nature. This position spends the majority of their time at individual elementary campuses working with students identifying students for the program and assessing their progress. The remainder of their time is spent at elementary campuses working with teachers to develop programs of study to support the needs of gifted and talented students.

She does not oversee or coordinate a district wide program; rather, she performs campus level duties identifying gifted and talented students at elementary campuses and tailoring curriculum to them.

**Item c:** It is our understanding that our coding of this position to organization code 999, as opposed to an individual campus, was taken to mean that this was a district level position. Because this position spreads their time between multiple elementary campuses, rather than splitting up their payroll between the individual campuses the employee works at, they were coded to 999.. In future, we will divide payroll costs for positions who work at multiple campuses between those campuses.

**Item e:** Based on our responses to items a. and c. above, we believe this position is eligible for Education Jobs Fund program funding.