

April 26, 2010

Mr. Rickey Wayne Logan  
Superintendent  
Rivercrest Independent School District  
4100 US Highway 27 South  
Bogata, TX 75417

Subject: Final Letter of Findings

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to the Rivercrest Independent School District (CDN: 194-903) (the subrecipient). The review focused on the grants awarded to the subrecipient pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA) as of February 3, 2010. The review was limited to the representations and records provided by the subrecipient in response to the auditors' formal correspondence dated January 11, 2010 and the interview conducted on February 3, 2010. Your response to the preliminary letter of findings dated April 13, 2010 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachment C. This review is now considered closed.

Sincerely,

Roger Hingorani  
Director of Special Monitoring Unit  
Division of Financial Audits

Cc: Jerel Booker, Associate Commissioner of Educator Quality and Standards  
Yolanda Cantu, Director, Division of Formula Grants Administration  
Rita Chase, Director, Division of Financial Audits  
Cory Green, Senior Director, Division of NCLB Program Coordination  
Earin Martin, Chief Grants Administrator

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## Attachment A

### Background:

As discussed in their notification letter dated January 11, 2010, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded to the Rivercrest Independent School District (CDN: 194-903) (the subrecipient). The primary focus of this review was to inquire about the subrecipient's fiscal controls in effect over federal awards and about the activities, functions, programs and services implemented by the subrecipient in support of the statutory, regulatory and other requirements pertaining to the ARRA funded grants.

### Summary of Audit Scope, Objectives and Methodology

#### Objectives

The review was focused on the following objectives:

1. Whether the subrecipient developed policies and procedures for the effective control of public funds.
2. Whether the subrecipient implemented a program that adhered to the fiscal, program and other requirements applicable to the public funds disbursed to the subrecipient.
3. Whether the financial, program and other records of the subrecipient accurately and completely accounted for the obligation, receipt, expenditure, and use of public funds.
4. 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 A below for the grant periods indicated.

<b>TABLE A</b>			
<b>Individual NOGAs Selected for the Review</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Begin Date</b>	<b>End Date</b>
10557001194903	ARRA TITLE XIV SFSF GRANT	9/1/2009	9/30/2010
10551001194903	TITLE I, PART A – ARRA/STIMULUS	7/1/2009	6/30/2010
10553001194903	ARRA –TITLE II, D TECHNOLOGY	7/1/2009	6/30/2010

#### Methodology

Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal

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requirements applicable to federal awards were met. In general, auditors performed the following audit procedures.

1. Auditors researched the federal and state laws and rules and the grant and program requirements applicable to the grants listed in Table A.
2. Auditors reviewed the grant application for the grant listed in Table A.
3. 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.
4. 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.
5. Auditors examined documentary evidence including, but not necessarily limited to; financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, and policies and procedures.
6. Auditors conducted an onsite visit and completed work programs and the related working papers.
7. Auditors applied certain criteria including, but not necessarily limited to, the requirements discussed in the Special Supplement to 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-122, and A-133, and the applicable request for application and approved grant application, as amended.

### **Summary of Findings**

Based upon their review of the subrecipient's records, auditors observed the following:

**Finding # 1:** The subrecipient did not maintain adequate policies and procedures to comply with the standards for financial management systems promulgated at 34 CFR 80.20(b) and the Financial Accountability System Resource Guide.

**Finding # 2:** The subrecipient charged costs to the grant that did not meet the terms and conditions of the applicable federal award.

**Finding # 3:** The subrecipient charged costs to the grant that were not allowed by federal law and rules and other grant requirements.

### **General Conclusion**

Based on their factual observations, auditors concluded that the subrecipient did not maintain an effective system of internal controls to ensure the appropriate expenditure of grant funds for the purposes stipulated and costs allowed in federal law and rules.

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**Questioned Costs**

None

**Auditors' Addendum**

Auditors reviewed the subrecipient's response dated April 13, 2010 and noted that the subrecipient submitted adequate documentation to address findings noted above. Auditors concur with subrecipient's response and proposed corrective action plan.

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**Attachment B: Auditors' Observations  
Federal Requirements**

As part of their planning activities and during the course of their review, auditors identified certain requirements applicable to the grant. 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 expend 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

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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.

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

**Finding # 1:** The subrecipient did not maintain adequate policies and procedures to comply with the standards for financial management systems promulgated at 34 CFR 80.20(b) and the Financial Accountability System Resource Guide.

Statements of Fact

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

Auditors noted that the policies and procedures maintained by the subrecipient failed to comply with the standards for financial management systems promulgated at 34 CFR 80.20(b) and the Financial Accountability System Resource Guide. Auditors observed that the subrecipient did not maintain a locally developed policies and procedures manual which described the following.

- a) The policies and procedures that addressed the preparation, review, approval and submission of expenditure reports to TEA.
- b) The process that subrecipient personnel must follow for the expenditure of grant funds for real or personal property including the property management policy (e.g., all capitalized property will receive a property ID and be recorded in the subrecipient's property management records) and disposal policy (e.g., depleted capitalized property that is no longer in a serviceable or useful condition) .
- c) The process that subrecipient personnel must follow for the expenditure of grant funds for travel costs including travel authorization and travel reimbursement process did not describe the following:
  1. Identify the required forms and third-party source documentation required for reimbursement of expenses incurred by an employee.

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2. The amounts it would reimburse for travel costs.
  3. The type of documentation or other related records (e.g., meeting/conference agendas, certificates of completion) the program office should forward or retain to demonstrate that the use of funds pertained to an allowable activity.
- d) The process that subrecipient personnel must follow for the expenditure of grant funds for the reimbursement of expenses incurred by employees did not address following:
1. The type of expenses that it would reimburse to its employees.
  2. The required forms and third party source documentation required from employees for reimbursement.
- e) The subrecipient does not have written policies and procedures that describe the process that subrecipient personnel are required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit. In detail the subrecipient did not have policies and procedures which address the use of corporate accounts (e.g., VISA) and/or revolving lines of credit (e.g., Office Depot account) for the purchase of supplies and materials and miscellaneous operating costs, including travel expenses.
- f) The policies and procedures that required cash management procedures to minimize the time elapsing between the receipt of grant funds and disbursement (i.e. payment) of funds; and procedures for determining reasonableness, allowability, and allocability of grant costs.

**Finding # 2:** The subrecipient charged costs to the grant that did not meet the terms and conditions of the applicable federal award.

**Finding # 3:** The subrecipient charged costs to the grant that were not allowed by federal law and rules and other grant requirements.

Statements of Fact

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

- a) Auditors observed that the grant application for SFSF grant approved by TEA included \$210,808.00 (object code 6600) budgeted for purchasing a new air-conditioning system for one of the campus. However, based on their review of the documents provided by the subrecipient auditors noted that the air conditioning system was purchased and the expenditure was charged to another funding source in a previous fiscal year.
- b) Auditors noted that the subrecipient expended amounts budgeted for air-condition project for other infrastructure projects which included installation of a new roof on several school buildings and other repair and renovation projects that were not approved in the budget.
- c) The subrecipient purchased computers that were budgeted under object code 6600 in the TEA approved grant application as amended. However, based on their review of the detailed general ledger auditors noted that the expenditures for the computers were coded

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under object code 6398 which did not have any amounts budgeted in the grant application as amended.

- d) In several instances, the subrecipient expended part of the SFSF grant funds on infrastructure projects that included a gymnasium and an athletic facility. The expenditure of SFSF funds for improvements of stand-alone facilities whose purpose is not education of children, including central office administration or operations or logistical support facilities, stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public are not allowed.
- e) In most instances, the subrecipient issued purchase orders after the date of the invoice.
- f) Based on observations noted above auditors questioned the total of \$186,201.00 charged to the SFSF grant (Refer to Table B).

Table B						
No.	Ref. Number	Check Date	Payee	Costs Examined	Amount questioned	Reason for Disallowance
1	5843	11/13/09	D.K.Haney	\$114,000.00	114,000.00	Not Approved in the budget
2	5856	12/10/09	LMS	\$15,201.00	\$15,201.00	Not Approved in the budget/for upgrading athletic facility
3	5864	12/18/09	D.K.Haney	\$57,000.00	\$57,000.00	Not Approved in the budget
Total Questioned Costs					\$186,201.00	

Effect

The subrecipient's internal control weaknesses adversely affected its ability to comply with 34 CFR 80.20 (b) and ARRA to properly administer grants funds. Consequently, 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.

Recommendation

Auditors recommend that the subrecipient consider the following corrective actions.

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- Recommendation 1 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.
- Recommendation 2 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.
- Recommendation 3 The subrecipient should submit a budget amendment to TEA to include the repair and renovation projects previously not approved on the grant application as amended.
- Recommendation 4 The subrecipient should prepare a cost allocation plan separating the costs of repairing the athletic facility from other infrastructure expenditures allowed by the program. The subrecipient should reallocate the unallowed cost charged to SFSF funds (Fund code 266) to other appropriate funding sources.

Questioned Costs

None

Finding Type

Compliance/Internal Control

Subrecipient's Response and Corrective Action Taken or Proposed

Refer to Attachment C (Page 10).

Auditors' Addendum

Auditors concur with subrecipient's response dated April 13, 2010 and the proposed corrective action plan.

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Superintendent  
Rivercrest Independent School District  
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**Attachment C: Subrecipient's Response to Auditors' Report**

RL  
(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. Refer to Attachment D.

\_\_\_\_\_  
(Please Initial) The subrecipient did not concur with the auditors' observations, general conclusion, assessment of risk and recommendation and enclosed a written response discussing its disagreement. Insert your response as Attachment E. The subrecipient also enclosed copies of documents that support its disagreement with the auditors' preliminary letter of findings. Insert supporting documents as Attachment(s) F through \_\_\_\_\_.

\_\_\_\_\_  
(Please Initial) The subrecipient concurred with only the observations noted below and proposed the corrective actions noted on Attachment D to this response. However, the subrecipient did not concur with the other observations, as noted below, and has enclosed a written response discussing its disagreement. Insert your response as Attachment E. 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. Insert supporting documents as Attachment(s) F through \_\_\_\_\_.

Finding	Subrecipient Concurred	
	Yes	No
01		
02		
03		

I, the undersigned, attest and affirm that our response above and the supporting attachments, C through D, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated March 25, 2010 from the Division of Financial Audits.

Rickey Logan  
Superintendent's Signature

April 13, 2010  
Date Signed

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

FINANCIAL AUDITS DIVISION

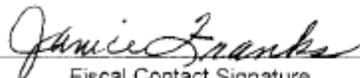
Finding:   1  

**Actions taken or planned for correction:**

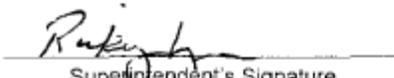
The district is in the process of reviewing its Policy and Procedure Manual  
to reflect expending and accounting of funds. The district will implement  
internal controls to permit the tracing of funds to assure costs and allowable,  
adequate documentation is maintained, and that cash drawdowns are timely  
and reflect the expenditures.

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

Business Manager and leadership team are updating the Operational  
Procedure Manual to reflect the above mentioned. The manual will be  
complete by May 28, 2010.

  
Fiscal Contact Signature  
(Preparer)

April 13, 2010  
Date Signed

  
Superintendent's Signature  
(Approver)

April 13, 2010  
Date Signed

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Superintendent  
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March 25, 2010

Mr. Rickey Wayne Logan  
Superintendent  
Rivercrest Independent School District  
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**Attachment D: Subrecipient's Proposed Corrective Action**

Finding:   2  

**Actions taken or planned for correction:**

During the on-site review, the SFSF application was amended to reflect  
the purchase of the roof renovation, awning, and elementary computer lab  
so that the funds expended matched the application. The computer lab was  
changed from 6300 to 6600 and capitalized. The gym and elementary are under  
one roof with the gym being used primary for PE classes. The school has built  
another gym that is used for athletic purposes.

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

The SFSF application has been amended and approved to reflect the  
above mentioned.

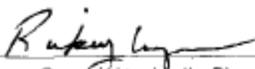
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

      April 13, 2010  
Fiscal Contact Signature      Date Signed  
(Preparer)

      April 13, 2010  
Superintendent's Signature      Date Signed  
(Approver)

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Mr. Rickey Wayne Logan  
Superintendent  
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**Attachment D: Subrecipient's Proposed Corrective Action**

Finding: 3

**Actions taken or planned for correction:**

During the on-site review, the questionable expenditure of \$15,201.00  
for gymnasium was removed from SFSF and charged to local funds.

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

The expenditure for \$15,201.00 has been removed from the SFSF budget and  
charged to local funds.

      April 13, 2010  
Fiscal Contact Signature      Date Signed  
(Preparer)

      April 13, 2010  
Superintendent's Signature      Date Signed  
(Approver)