October 15, 2010

Rev-21-220-902-07-2010

VIA UNITED STATES POSTAL SERVICE

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
6125 East Belknap Street
Haltom City, TX 76117

Subject: Final Letter of Findings

Dear Dr. Waddell:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Birdville Independent School District (CDN: 220-902) (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 June 28, 2010 and during the onsite visit conducted by auditors on July 12, 2010. Your response to the Preliminary Letter of Observations and Findings dated September 17, 2010 has been incorporated into the body of the final report as deemed appropriate, and is included as Attachments A and B.

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.

Sincerely,

Roger Hingorani
Director of Special Monitoring Unit
Division of Financial Audits

Cc: Yolanda Cantu, Director, Division of Formula Grants Administration
Rita Chase, Director, Division of Financial Audits
Kathy Clayton, Senior Director, Division of IDEA Coordination

Cory Green, Senior Director, Division of NCLB Program Coordination
Earin Martin, Chief Grants Administrator

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 3

Table of Contents

Executive Summary 4

Summary of Observations and Findings: 4

Summary of Audit Scope, Objectives and Methodology 9

Acronyms and Abbreviations Used In This Letter 11

Attachment A 12

Attachment B 13

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 4

Executive Summary

Background:

As discussed in their notification letter dated June 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 Birdville Independent School District (CDN: 220-902) (the subrecipient) pursuant to ARRA. The primary focus of this review was to inquire about subrecipient's fiscal controls in effect over ARRA funded 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 grants. After completing certain desk audit procedures, auditors conducted an onsite visit on July 12, 2010. Subsequent to their onsite visit, auditors continued to perform desk audit procedures. 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.

As of the notification letter dated June 28, 2010, the subrecipient was awarded a total amount of $16,370,205.00 grant funds for five ARRA grants (refer to Table A below).

TABLE A NOGAs Awarded to Birdville Independent School District as of 6/28/2010		
NOGA ID	**NOGA Description**	**Amount**
10554001220902	IDEA B Formula – ARRA-LEA	$4,384,100.00
10555001220902	IDEA B Pre-School – ARRA-LEA	$113,305.00
10551001220902	Title I, Part A – ARRA/STIMULUS	$2,448,251.00
10553001220902	ARRA - Title II, D Technology	$76,469.00
10557001220902	ARRA Title XIV SFSF	$9,348,080.00
	Total Amount Awarded	$16,370,205.00

Summary of Observations and Findings:

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

Observations on Subrecipient's Administration of ARRA awards: Auditors examined the financial records created and maintained by the subrecipient and assessed the subrecipient's internal controls over policies and procedures, quality of data, budgetary process, cash management, time and effort reporting and the use of ARRA funds. Auditors noted that in

certain instances the subrecipient did not have adequate controls and/or maintain documentation to comply with various federal requirements and standards of financial management as noted below.

Finding # 1: In one instance, the subrecipient failed to maintain adequate and sufficient source documentation to support the expenditures charged to the grants and reported to TEA as the basis for its reimbursement from the applicable grant program.

Observations on ARRA Reporting Requirements: Auditors reviewed the quarterly reports for the quarter ended June 30, 2010, payroll records and other documentation in support of the data reported and noted that the subrecipient did not have adequate controls and/or maintain documentation to comply with the reporting requirements of section 1512 of ARRA as noted below:

Finding # 2: The subrecipient did not accurately report the number of FTEs paid with ARRA grant funds as required in section 1512 of ARRA.

Observations on ARRA Infrastructure Expenditures: The subrecipient did not have any expenditures for infrastructure projects budgeted from ARRA funds.

Overall Conclusion

Based on their observations, auditors noted that the subrecipient generally maintained adequate controls over its administration of ARRA awards. However, the subrecipient did not accurately report the correct number of Full Time Equivalents (FTEs) in a manner that would ensure compliance with the quarterly reporting requirements of ARRA 2009

Questioned Costs

$0.00

Recommendations

The subrecipient should review this letter and provide its response on Attachments A and B, and include any relevant documentation supporting its response.

Subrecipient's Response

Refer to Attachments A and B.

Auditor's Addendum

Auditors reviewed the subrecipient's response dated September 29, 2010 to the Preliminary Letter of Observations and Findings and the documentation submitted with the response. Auditors concur with the subrecipient's response and the proposed corrective action plan to address the findings noted above.

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 6

Auditors' Observations

Finding # 1: In two instances, the subrecipient failed to maintain adequate and sufficient source documentation to support the expenditures charged to the grants and reported to TEA as the basis for its reimbursement from the applicable grant program.

Statements of Fact

Auditors selected a total sample of twenty-seven (27) non-payroll transactions including fourteen (14) transactions from IDEA-B Formula – ARRA, (fund code 283), six (6) transactions from IDEA-B Preschool – ARRA, (fund code 284), and seven (7) transactions from Title I, Part A – ARRA and examined the documentation in support of the expenditures. Based on their examination, auditors observed that the subrecipient did not maintain the following documentation to support costs charged to grant funds.

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

1) Auditors observed that in one instance the subrecipient did not maintain an original and complete third-party document (i.e., billing statement, itemized receipt, itemized invoice, executed contract etc.) or an original and complete internal accounting record (e.g., purchase order) to support this transaction as supporting documentation. As a result, auditors determined questioned costs in the amount of $3,315.51. (Fund 283, see voucher #20115758 on 12/7/2009 to vendor "Feldman, Rogers, Morris, & Grover, LLP").

2) In one instance, the purchase order/purchase request was dated after the date of the invoice. (Fund 285, see voucher #20116052 on 12/8/2009 to vendor "Jim Shipley & Associates").

Effect

The subrecipient's failure to implement an adequate system of internal controls may place grant funds at risk of being misused and may possibly 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) (5)(6) to properly administer grants funds.

Finding Type

Compliance/Internal Control

Questioned Costs

$0.00

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

Refer to Attachment B.

Auditor's Addendum

Auditors reviewed the subrecipient's response and documentation in support of the transactions listed on Appendix A. Auditors concur with the subrecipient's response and the proposed corrective action plan to address Finding #1 noted above. As a result, auditors adjusted the questioned costs of $3,315.51 to $0.00.

Finding # 2: The subrecipient did not accurately report the number of FTEs paid with ARRA grant funds as required in section 1512 of ARRA.

Statement of Fact

Auditors examined the quarterly reports filed by the subrecipient, payroll journals, and the methodology used by the subrecipient to calculate the number of FTEs reported in the quarterly reports. Based on their examination auditors observed that the subrecipient did not use an acceptable methodology to accurately report the number of FTEs in the quarterly reports.

Specifically, auditors observed that the subrecipient's process for calculating FTEs is as follows;

> "SFSF is used only for personnel. Employees are regular, contracted employees. As the employees are paid on full time equivalents, the FTEs are calculated based on this. The employee's % allocation coded to SFSF is multiplied by their FTE. These amounts are totaled and reported.
>
> Training payroll may also be recorded to SFSF. The daily salary for employees attending certain training is coded to the fund. The hours coded to the fund are calculated into an FTE based on expected hours of a full time employee for the quarter."

Auditors noted that the methodology described above was based on the % of payroll costs charged to the grant for each employee and did not account for the hours paid for extra duty pay or substitute pay from Title 1, Part A ARRA and IDEA-B ARRA grant funds. As a result, the subrecpient did not report FTE's for extra duty and substitute pay in the quarterly reports filed by the subrecipient.

Effect

The subrecipient's failure to implement an adequate system of internal controls to collect, compile and report data may result in submission of inaccurate data.

Conclusion

The subrecipient did not adhere to section 1512 quarterly reporting requirements under ARRA.

Finding Type

Internal Control

Questioned Costs

None

Subrecipient's Response

Refer to Attachment B.

Auditor's Addendum

Auditors concur with the subrecipient's response and the proposed corrective action plan to address Finding #2 noted above.

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 9

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 obligated, expended, received, and used public funds in accordance with:

   a. The purpose for which those funds were appropriated or otherwise authorized by law;

   b. The fiscal, program, and other requirements applicable to the funds disbursed to the subrecipient and;

   c. Any limitations, restrictions, conditions, or mandatory directions imposed by law on those obligations, expenditures, receipts, or uses.

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.

5. Whether the subrecipient implemented a program that adhered to the fiscal, program and other requirements applicable to the public funds disbursed to the subrecipient.

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.

TABLE A Individual NOGAs Selected for Review			
NOGA ID	**NOGA Description**	**Begin Date**	**End Date**
10551001220902	Title I, Part A – ARRA/STIMULUS	6/25/2009	6/30/2010
10553001220902	ARRA - Title II, D Technology	10/19/2009	6/30/2010
10554001220902	IDEA B Formula – ARRA-LEA	8/5/2009	9/30/2011
10555001220902	IDEA B PreSchool – ARRA-LEA	8/5/2009	9/30/2011

TABLE A Individual NOGAs Selected for Review			
NOGA ID	**NOGA Description**	**Begin Date**	**End Date**
10557001220902	ARRA Title XIV SFSF	9/1/2009	9/30/2010

Methodology

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.

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 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.

3. 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.

4. Auditors examined documentary evidence for post-payment of selected ARRA fund expenditures including, but not necessarily limited to; financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, contracts, and policies and procedures.

5. Auditors conducted an onsite visit and completed work programs and the related working papers.

6. Auditors examined the documentation in support of quarterly reports filed by the subrecipient pursuant to ARRA reporting requirements to ensure accuracy of data reported to TEA.

7. 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.

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
FTE	Full Time Equivalent
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

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 12

Attachment A

September 17, 2010

Received
OCT 14 2010
Financial Audits Divisio

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Preliminary Letter of Observations and Findings, Page 12

Attachment A: Subrecipient's Response to Auditors' Report

_____ (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 ____.

AB (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 H.

Finding	Subrecipient Concurred	
	Yes	No
01		✓
02	✓	

I, the undersigned, attest and affirm that our response above and the supporting attachments, D through H, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated September 17, 2010 from the Division of Financial Audits.

Superintendent's Signature

10/11/10
Date Signed

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 13

Attachment B

September 17, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Preliminary Letter of Observations and Findings, Page 13

Attachment D: Subrecipient's Proposed Corrective Action

Finding: 2

Actions taken or planned for correction:

See attachment F

Responsibilities and timetable for the above actions:

See Attachment F

Kate Bowman — 10/10/10

Fiscal Contact Signature (Preparer) — Date Signed

[illegible] — 10/11/10

Superintendent's Signature (Approver) — Date Signed

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 14
Attachment F

Texas Education Agency
Division of Financial Audits
Attn: Special Monitoring Unit
1701 North Congress Avenue
Austin, Texas 78701

Subject: Subrecipient's Response to Auditors' Report

Mr. Hingorani:

The Division of Financial Audits conducted an onsite review of the District's American Recovery and Reinvestment Act of 2009 (ARRA) grants on July 12, 2010. Subsequent to the onsite visit, auditors continued to perform desk audit procedures. In response to the Preliminary Letter of Observations and Findings dated September 17, 2010, the District has the following responses:

Finding #1

In one instance, the subrecipient failed to maintain adequate and sufficient source documentation to support the expenditures charged to grants and reported to TEA as the basis for its reimbursement from the applicable grant program.

Questioned Costs

$3,315.51

Subrecipient's Response

The District has attached a supporting invoice from Feldman, Rogers, Morris & Grover, LLP dated November 11, 2009. The invoice is in the total amount of $3,988.01, of which $3,315.51 was charged to the IDEA-B Formula ARRA grant for contracted services to provide diagnostician training for District personnel. Diagnostician training is allowable under the grant, and the District believes the attached invoice is sufficient source documentation to support the expenditure charged to the grant. As such, the District disputes the questioned costs. **See Attachment G**.

Finding #2

The subrecipient did not accurately report the number of FTEs paid with ARRA grant funds as required in section 1512 of ARRA.

Subrecipient's Response

The District failed to calculate and report hours paid for extra duty and substitute pay from Title I, Part A ARRA and IDEA-B Formula ARRA grant funds. Subsequent to the auditors visit, the District took corrective actions to implement procedures to calculate FTEs for extra duty and substitute pay for the ARRA grants. The FTEs for the quarter ended June 30, 2010 were revised during the correction period, and the FTEs were appropriately calculated and reported for the quarter ended September 30, 2010. In addition, the District has calculated the FTEs for extra duty and substitute pay for quarters prior to June 30, 2010 and will report revised FTEs if a correction period is provided by TEA and the Department of Education for these quarters.

October 15, 2010

Dr. Stephen Waddell
Superintendent
Birdville Independent School District
Subject: Final Letter of Findings, Page 15
Page 2-Subrecipient's Response to Auditors' Report

Additional comments and response to Observations

Observation/Effect

In one instance, the purchase order/purchase request was dated after the date of the invoice. 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.

Comment/Response

The District believes we have appropriate internal controls to prevent grant funds from being misused or expended for purposes not stipulated and costs not allowed in federal law and rules. The District does not obtain purchase orders for professional and contracted services, instead contracts are obtained and check requests are submitted upon receipt of the invoice. Our grant guidelines indicate the following as it relates to professional and contracted services:

> Professional and consultant services are delivered by an independent contractor (not an employee of the District) that offers services to the public. These services are paid on a fee basis and are specialized services typically in areas that supplement the expertise of the District. Consultants should be selected based on competence, qualifications, experience and reasonable costs. District personnel should review documentation (i.e. resume, certifications, etc.) to assess the competence, qualifications and experience of the professional. A signed contractual agreement is required and must adequately address the description of the service, estimated time required, rate of compensation, termination provisions, etc. All invoices for professional and contracted services require sufficient detail to describe the services provided (i.e. dates, hours, students served, etc.).

The District will review this policy with grant personnel to ensure that internal policies are followed.

Observation

Auditors examined the expenditure reports filed by the subrecipient and detailed general ledger for SFSF grant (fund code 266) and noted that the subrecipient recorded $7,455,266.68 in total expenditures and total revenue from TEA for the grant fund. However, the subrecipient drew down $7,457,071.25 to claim expenditures for reimbursement, $1804.57 in excess of the expenditure reported in the general ledger.

Comment

The District has appropriate internal controls over grant draw downs which includes preparing reports based on the total expenditures per the general ledger. The District drew down $7,457,071.25 on July 1, 2010 for expenditures through May 31, 2010. Attached is the draw down report with supporting general ledger totals in the amount of $7,457,071.25. Subsequent to the draw down, a correcting journal entry was made to the general ledger for $1,804.57. At the time of the draw down in question, the correcting journal entry was not known. In addition, June payroll and accrued payroll in excess of $1 million had been expended as of July 1, 2010, the time of the draw down was entered into the online expenditure system. As such, the District maintains funds in excess of the general ledger were not drawn down and believes appropriate policies and procedures are documented and implemented. **See Attachment H.**

Sincerely,

Stephen Waddell, Ed.D.
Superintendent of Schools