

October 17, 2011

Rev-26-043-905-5-2011

VIA UNITED STATES CERTIFIED MAIL

Dr. Rick Reedy  
Superintendent  
Frisco Independent School District  
6942 Maple Street  
Frisco, TX 75034-3401

Subject: Final Letter of Observations and Findings

Dear Dr. Reedy:

Auditors from the Division of Financial Audits conducted an initial onsite review of the fiscal controls over federal grants awarded to Frisco Independent School District (CDN: 043-905) (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 April 6, 2011 and during the onsite visit conducted by auditors on May 5, 2011. Although the records submitted by the subrecipient remain subject to review by appropriate federal and/or state oversight entities, auditors consider this review closed. You will be notified in the event a follow up to the review is scheduled.

Should you have any questions, please contact Raul Butland at (512) 463-9095

Sincerely,

Roger Hingorani  
Director of Special Monitoring Unit  
Division of Financial Audits

Cc: Janice Hollingsworth, Interim Director, Division of Financial Audits

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### Background

As discussed in their notification letter dated April 6, 2011, auditors from the Division of Financial Audits of the TEA initiated an onsite review of the fiscal controls over federal grants awarded Frisco Independent School District (CDN:043-905) pursuant to ARRA. Due to heavy emphasis on accountability and transparency on ARRA funded grants, the primary focus of this review was to inquire about the subrecipient's fiscal controls in effect over ARRA funded awards and about the activities, functions, programs and services implemented by the subrecipient to provide a reasonable assurance of compliance with laws, rules, regulations, and guidance pertaining to the ARRA grants awarded to the subrecipient. Generally, auditors limited their review to the subrecipient's records supporting its compliance with grant requirements and accounting for its receipt and expenditures of grant funds of ARRA funded grants awarded to the subrecipient. As of March 28, 2011, the subrecipient filed expenditure reports to claim a total of \$19,935,519.44 in expenditures from the total of \$25,518,671.00 ARRA funded grants awarded to the subrecipient for four ARRA grants (refer to Table A below).

| <b>TABLE A</b>  |                             |                       |                        |
|---|-----------------------------|-----------------------|------------------------|
| <b>Expenditures of NOGAs Awarded to Frisco ISD as of March 28, 2011</b> |                             |                       |                        |
| <b>NOGA ID</b>  | <b>NOGA Description</b>     | <b>Amount Awarded</b> | <b>Amount Expended</b> |
| 10554001043905  | IDEA B Formula – ARRA-LEA   | \$5,402,120.00        | \$3,867,020.66         |
| 10555001043905  | IDEA B Preschool – ARRA-LEA | \$140,425.00          | \$96,797.40            |
| 10557001043905  | ARRA Title XIV SFSF (09-11) | \$9,599,945.00        | \$9,599,945.00         |
| 11557001043905  | ARRA Title XIV SFSF (10-11) | \$10,376,181.00       | \$6,371,756.38         |
| <b>Total Amount Awarded</b>   |                             | \$25,518,671.00       | \$19,935,519.44        |

### General Observations

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

- 1. Observations on Subrecipient's Administration of ARRA awards:** Auditors examined financial records created and maintained by the subrecipient and assessed the subrecipient's internal controls over policies and procedures, quality of data, budgetary control of ARRA grants, cash management, time and effort reporting requirements and the use of ARRA funds. Based on their examination, auditors noted that in certain instances the subrecipient did not have adequate controls and/or maintain documentation to comply with certain federal requirements and standards of financial management. (Refer to Observations #1 and #2 in the body of the letter.)
- 2. Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports

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filed by the subrecipient and the documentation in support of the data accumulated and reported to TEA and noted that the subrecipient complied with the reporting requirements promulgated in Section 1512 (c) of American Recovery and Reinvestment Act of 2009.

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

### **Overall Conclusion**

Based upon their review of the subrecipient's records, auditors observed that the subrecipient generally implemented certain fiscal controls to ensure the proper administration of the grant and to facilitate its compliance with the requirements promulgated by the United States Department of Education in Section 80.20 of Title 34 of the Code of Federal Regulations (34 CFR 80.20), Office of Management and Budget (OMB) Circular A-87 and American Recovery and Reinvestment Act of 2009 (ARRA). The auditors' observations are discussed in the body of the letter.

### **Questioned Costs**

\$0.00

### **Recommendations**

The subrecipient should review this letter and implement the recommendations provided in the body of the letter.

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### **Attachment A: Summary of Auditors' Findings**

#### **Observations on Subrecipient's Administration of ARRA awards**

**Observation #1:** The subrecipient generally complied with the standards for financial management systems promulgated in 34 CFR 80.20(b)(3) but auditors noted the following instances of weakness in internal controls

#### Statements of Fact

Auditors noted that 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)(3). Specifically, auditors observed that the subrecipient did not maintain locally developed policies and procedures which described the following.

1. The subrecipient's policies and procedures did not include a description of the process that subrecipient personnel were required to follow for the expenditure of grant funds through corporate accounts and/or revolving lines of credit. Specifically,
  - a) The subrecipient's policies and procedures did not describe how control was maintained over the account(s) (e.g., the subrecipient required the business manager to maintain the charge card in a safe deposit box in the business office and a log of who used the charge card and the amount that person was authorized to charge; e.g., subrecipient personnel were personally responsible for charges on corporate accounts and had to file a reimbursement form with original itemized third-party invoices and receipts).
  - b) The subrecipient's policies and procedures did not address or require the monitoring of corporate accounts and/or revolving line of credit activities to identify inappropriate use.
2. The subrecipient's policies and procedures pertaining to the expenditure of grant funds with petty cash did not describe the following.
  - a) The subrecipient's policies and procedures did not have a clearly defined petty cash purchase dollar limit.
  - b) The subrecipient's policies and procedures did not require that reconciliations are regularly performed on petty cash.
  - c) The subrecipient's policies and procedures did not identify a single individual in the program area (e.g., federal programs coordinator or special education director) and in the business office (e.g., grant accountant or controller) for reviewing and approving all purchase orders and invoices to ensure that the related costs may be charged to grants.

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### **Recommendation**

The subrecipient should review its existing policies and procedures and update and/or implement adequate internal control policies and procedures to provide 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 failed to develop and implement comprehensive administrative procedures that identified the processes and forms that it would use to ensure compliance with the time and effort requirements promulgated in OMB circular A-87.

### Statements of Fact

Auditors reviewed the subrecipient's policies and procedures demonstrating the subrecipient's compliance with the requirements promulgated in OMB A-87 and noted the following:

- a) The subrecipient's policies and procedures did not address the requirement for the allocation of payroll costs to federal awards based upon the actual time reported by each employee paid from a federal award.
- b) The subrecipient's policies and procedures did not require preparation of an internal accounting record for each position that identified the individual employed, their functional title, and the amount of their salary and other compensation charged to each local, state or federal fund source/program.
- c) The subrecipient's policies and procedures did not address or require that each job description describe the work performed by the employee for each program/fund source.

### **Recommendation**

The subrecipient should maintain policies and procedures to comply with time and effort reporting requirements promulgated in OMB circular A-87. The subrecipient should implement effective time and effort reporting requirements to comply with OMB Circular A-87, to provide reasonable assurance that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements.

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## Summary of Audit Objectives, Scope and Methodology

### Objectives

The review focused on the following objectives.

- Whether the subrecipient developed written policies and procedures for the effective control of ARRA funds.
- Whether the subrecipient's financial records accurately and completely accounted for the obligation, receipt, expenditure, and use of the ARRA grant funds.
- Whether financial, program, and other reports filed by the subrecipient were fairly presented and properly supported by the subrecipient's source documentation.

### Scope

Consistent with the objectives of the review identified above, auditors limited the scope of their work to the subrecipient functions and activities implemented in support of the intent and objectives of the grant noted in the Table B below for the grant periods indicated.

| <b>TABLE B<br/>Individual NOGAs Selected for Audit</b> |                              |                   |                 |
|--|------------------------------|-------------------|-----------------|
| <b>NOGA ID</b>   | <b>NOGA Description</b>      | <b>Begin Date</b> | <b>End Date</b> |
| 10554001043905   | IDEA B Formula – ARRA-LEA    | 7/6/2009          | 9/30/2011       |
| 10555001043905   | IDEA B Pre-School – ARRA-LEA | 7/6/2009          | 9/30/2011       |
| 10557001043905   | ARRA Title XIV SFSF (09-11)  | 9/24/2009         | 9/30/2011       |
| 11557001043905   | ARRA Title XIV SFSF (10-11)  | 9/1/2010          | 9/30/2011       |

### Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on May 5, 2011. Subsequent to their onsite visit, auditors continued to perform desk audit procedures. Auditors conducted inquiries and reviewed the subrecipient's records to determine if the fiscal requirements applicable to federal awards were met. In general, auditors performed the following audit procedures.

1. Auditors researched the federal and state laws and rules and the grant and program requirements applicable to the grants listed in Table B.

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2. Auditors reviewed organizational charts and local policy and procedure manuals and other authoritative records to understand the subrecipient's organizational structure and identify internal controls and processes.
3. Auditors reviewed financial and accounting records created and maintained by the subrecipients to ensure that included budgetary data consistency with budget approved by TEA for each grant and maintained financial accounting system that enabled the subrecipient personnel to compare budgeted amounts for each grant to the expenditures incurred and outlays of grant funds.
4. Auditors examined the documentation in support of quarterly reports filed by the subrecipient pursuant to Section 1512 of ARRA reporting requirements to ensure accuracy of data reported to TEA.
5. Auditors examined documentary evidence for post-payment of selected ARRA fund expenditures including, but not necessarily limited to; payroll records, time and effort records, financial accounting reports, original third-party documents such as billing statements, invoices and receipts, personnel files, contracts, and policies and procedures.
6. Auditors examined the documentation in support of Infrastructure project (if applicable) paid with ARRA funds to ensure that the subrecipient complied with certification requirements pursuant to section 1511 of ARRA, Buy American provisions of ARRA pursuant to section 1605 of ARRA and Davis Bacon Act pursuant to section 1606 of ARRA.
7. Auditors interviewed subrecipient personnel and other agents about the activities, functions, programs and services implemented for the grant and the records created and maintained for the grant.
8. Auditors conducted an onsite visit and completed work programs and the related working papers.
9. Auditors applied certain criteria including, but not necessarily limited to, the requirements discussed in the Financial Accountability System Resource Guide, Title 34 Code of Federal Regulations 80.20, the American Recovery and Reinvestment Act of 2009, PL-111-5 (Recovery Act), OMB Circulars A-87, and A-133, and the applicable request for application and approved grant application, as amended.

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### **Acronyms and Abbreviations Used In This Letter**

| <b>Acronym</b>  | <b>Acronym Description</b>   |
|-----------------|--|
| ARRA            | American Recovery and Reinvestment Act of 2009   |
| CDN             | County District Number   |
| CFR             | Code of Federal Regulations  |
| 34 CFR          | Title 34 of the CFR<br><br>Note: This acronym is usually followed by the section of the CFR referenced in the report. For instance, section 80.20 of 34 CFR is referenced as 34 CFR 80.20. |
| FASRG           | Financial Accountability System Resource Guide   |
| ID              | Identification   |
| IDEA            | Individuals with Disabilities Education Improvement Act of 2004  |
| ISD             | Independent School District  |
| NCLB            | No Child Left Behind Act of 2001   |
| NOGA            | Notice of Grant Award  |
| OMB             | Office of Management and Budget  |
| P.L.            | Public Law   |
| SFSF            | State Fiscal Stabilization Fund  |
| TEA             | Texas Education Agency   |
| TEC             | Texas Education Code   |
| Title I, Part A | Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended  |