

October 26, 2011

VIA UNITED STATES CERTIFIED MAIL

Rev-27-057-903-5-2011

Dr. Bobby Burns  
Superintendent  
Carrollton Farmers Branch Independent School District  
1445 N. Perry Road  
Carrollton, TX 75006-6134

Subject: Final Letter of Observations and Findings

Dear Dr. Burns:

Auditors from the Division of Financial Audits conducted a review of the fiscal controls over federal grants awarded to Carrollton Farmers Branch Independent School District (CDN: 057-903) (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 4, 2011. Your response to the preliminary letter of observations and findings dated October 20, 2011 has been incorporated into the body of this final letter of observations and findings as deemed appropriate, and is included as Attachments B and C.

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 Mike Scott 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 to Carrollton Farmers Branch Independent School District (CDN: 057-903) 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 26, 2011 the subrecipient filed expenditure reports to claim a total of \$14,791,073.26 in expenditures from the total of \$24,551,901.00 ARRA funded grants awarded to the subrecipient.

As of the notification letter dated April 6, 2011, the subrecipient was awarded a total amount of \$24,551,901.00 grant funds for six ARRA grants (refer to Table A below).

<b>TABLE A Expenditures of NOGAs Awarded to Carrollton Farmers Branch Independent School District as of March 26, 2011</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Amount Awarded</b>	<b>Amount Expended</b>
10554001057903	IDEA B Formula – ARRA-LEA	\$5,238,273.00	\$3,631,042.79
10555001057903	IDEA B Pre-School – ARRA-LEA	\$136,186.00	\$55,059.10
10551001057903	TITLE I, PART A - ARRA/STIMULUS	\$3,369,275.00	\$2,423,331.54
10553001057903	ARRA--TTL II, D TECHNOLOGY	\$106,133.00	\$94,140.96
10557001057903	ARRA Title XIV SFSF (09-11)	\$7,560,425.00	\$7,560,424.00
11557001057903	ARRA Title XIV SFSF (10-11)	\$8,141,609.00	\$1,027,074.87
<b>Total</b>		<b>\$24,551,901.00</b>	<b>\$14,791,073.26</b>

**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

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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 Findings #1, #2, and Internal Controls: General Observations )

2. **Observations on ARRA Reporting Requirements:** Auditors reviewed the quarterly reports 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. Specifically, auditors noted that:
  - a. The subrecipient used a proper methodology to compile and calculate the number of FTEs reported on the quarterly reports.
  - b. The subrecipient maintained adequate documentation to support the number of FTEs and vendors reported on the quarterly report.
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 with the exception of two instances, the subrecipient generally implemented 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) and Office of Management and Budget (OMB) Circular A-87. The auditors' findings and observations are discussed in the body of the letter.

### **Questioned Costs**

\$0.00

### **Recommendations**

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

### **Summary of subrecipient's Response**

The subrecipient concurred with the auditors' findings and the General Observations of Internal Controls and provided corrective action plans to address these issues.

### **Auditor's Addendum**

Auditors reviewed the subrecipient's response and corrective actions and noted that the subrecipient made the necessary corrections to the issues identified. As a result, auditors adjusted the questioned costs accordingly.

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

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

**Finding # 1:** 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 that were intended to demonstrate the subrecipient's compliance with the requirements promulgated in OMB A-87 and noted the following:

- a. The subrecipient's written policy & procedure manual described the circumstance in which a periodic certification is required (100% to one cost objective), however there is no mention of split funded or those employees that are not charged 100% to one cost objective.
- b. The subrecipient's written policies and procedures did not prescribe the form and content of a periodic certification or personnel activity report. However, the periodic certification was being used by the subrecipient.
- c. The subrecipient's written policies and procedures did not require that the employee 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 reports.
- d. The subrecipient's written policies and procedures did prescribe the frequency of periodic certifications, but did not prescribe the frequency of personnel activity reports.
- e. The subrecipient's written policies and procedures did not require the 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. However, the subrecipient has a procedure it uses for this attribute.
- f. The subrecipient's written policies and procedures did not require the allocation of payroll costs to federal awards based upon the actual time reported by each employee paid from a federal award. However, the subrecipient has a procedure it uses for this attribute.

### **Conclusion**

The subrecipient's failure to implement and comply with time and effort requirements promulgated in OMB Circular A-87 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.

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### **Finding Type**

Compliance/Internal Control

### **Questioned Costs**

\$0.00

### **Recommendation**

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. Additionally, the subrecipient should update its current policies and procedures to provide reasonable assurance that it will maintain compliance should any employees become split-funded in the future.

### **Subrecipient's Response**

The subrecipient concurred with the auditors' finding and subsequently provided a corrective action plan. See Attachment B and Attachment C.

### **Auditor's Addendum**

Auditors concur with the subrecipient's response and the proposed corrective action plan.

### **Internal Controls: General Observations**

Auditors noted that the subrecipient did not maintain adequate policies and procedures in order to comply with the standards for financial management systems promulgated at 34 CFR 80.20. 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 pertaining to the expenditure of grant funds through corporate accounts and/or revolving lines of credit did not describe the following.
  - 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).

### **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

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that it is managing federal awards appropriately and is complying with laws, regulations, and the provisions of grant agreements. The subrecipient should develop and implement written procedures and internal controls for expenditure of grant funds for supplies and materials and miscellaneous operating costs. Additionally, the subrecipient should develop and implement written procedures and internal controls that give adequate guidance for control of real and personal property as well as control of corporate accounts and/or revolving lines of credit.

**Finding # 2:** The subrecipient did not effectively use its budgeted expenditures and encumbrances to ensure that actual expenditures did not exceed the approved budget.

Statements of Fact

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

- a. The expenditures recorded on the detailed general ledger for the ARRA IDEA B Preschool grant (fund code 284) did not agree to the budget approved by the TEA for the grant. Specifically, auditors observed that the subrecipient expended grant funds under object code 6200. However, the program budget summary of the grant application as amended did not indicate any amount budgeted under object code 6200. As a result, auditors questioned \$10,500.00 charged to the grant.

**Finding Type**

Compliance/Internal Controls

**Conclusion**

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

**Questioned Costs**

\$0.00

**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.

**Subrecipient's Response**

The subrecipient concurred with the auditors' finding and subsequently provided a corrective

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action plan. See Attachment B and Attachment C.

**Auditor's Addendum**

Auditors reviewed the subrecipient's response and corrective actions and noted that the subrecipient made the necessary corrections to the issues identified. As a result, auditors adjusted the questioned costs accordingly.

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## Summary of Audit Scope, Objectives and Methodology

### Objectives, Scope, Methodology and Timeline

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 Individual NOGAs Selected for Audit</b>			
<b>NOGA ID</b>	<b>NOGA Description</b>	<b>Begin Date</b>	<b>End Date</b>
10554001057903	IDEA B Formula – ARRA-LEA	8/27/2009	9/30/2011
10555001057903	IDEA B Pre-School – ARRA-LEA	8/27/2009	9/30/2011
10551001057903	Title I, Part A – ARRA/STIMULUS	7/20/2009	9/30/2011
10553001057903	ARRA - Title II, D Technology	10/23/2009	9/30/2011
10557001057903	ARRA Title XIV SFSF	9/21/2009	9/30/2011
11557001057903	ARRA Title XIV SFSF	9/1/2010	9/30/2011

### Methodology and Timeline

After completing certain desk audit procedures, auditors conducted an onsite visit on May 4, 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  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

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

I, Dr. Bobby Burns, received the preliminary letter of findings dated October 7, 2011 from the Division of Financial Audits of the Texas Education Agency. I further represent that I, in conjunction with other staff and agents of Carrollton Farmers Branch Independent School District (the subrecipient) closely read the auditors' preliminary letter of findings and thoughtfully considered the auditors' findings, general conclusion, assessment of risk and recommendation discussed therein. Accordingly, I hereby acknowledge that

✓ BB  
(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.

\_\_\_\_\_  
(Please Initial) I disagree with the findings, recommendations and required actions and have included a written response, including copies of supporting documentation, discussing my disagreement with the findings in this preliminary letter of findings.

\_\_\_\_\_  
(Please Initial) The subrecipient concurred with only the observations noted below and enclosed the attached proposed corrective action to address the auditors' findings. However, the subrecipient did not concur with the other finding, as noted below, and has enclosed a written response discussing its disagreement. 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.

Finding	Subrecipient Concurred	
	Yes	No
01	✓	
02	✓	

I, the undersigned, attest and affirm that our response above and the supporting attachments, \*1 through \*2, constitute an accurate and complete response from the subrecipient to the findings and recommendations discussed in the preliminary letter of findings dated October 7, 2011 from the Division of Financial Audits. I further affirm that the subrecipient did not withhold any relevant information or documentation or otherwise failed to provide a complete and accurate response to the auditors' correspondence dated October 7, 2011.

Bobby Burns  
Superintendent's Signature

10/20/2011  
Date Signed

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**Attachment C: Finding #1 - Subrecipient's Proposed Corrective Action**

**Finding: #1**

**Actions taken or planned for correction:**

The issue of "Time and Effort" was addressed in our audit by our independent auditors. Our Business Office Procedural Manual will be updated to reflect the need to have employees either split-funded or fully funded from our federal funds to sign off that their work was aligned with the goals and purposes of the grant. Excerpts from the OMB #87 Circular will be inserted to clarify this guidance.

Once a quarter, the Federal Program Coordinator and the grant accountant will meet to review all federally funded personnel to check for coding and compliance issues.

**Responsibilities and Timetable for above actions:**

All principals, directors and supervisory personnel have been informed of this federal requirement. The campuses have been given a list of federally funded personnel on their campus that must turn in these forms to our Federal Program Coordinator who was recently employed by our district. The forms will be given out in January and May, and kept on file in the employees file as well as in our grant documentation in the Administration offices. Our grant accountant will be continually monitoring these issues to be sure they are in compliance.



Fiscal Contact Signature  
Marcia Harbour, Grant Accountant  
972-968-6124

10-20-11  
Date Signed



Superintendent's Signature

10/20/2011  
Date Signed

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**Attachment C: Finding #2 - Subrecipient's Proposed Corrective Action**

**Finding: #2**

**Actions taken or planned for correction:**

- (1) In the future any grant that does not have money allocated in all the object codes on the NOGA will be noted and kept for use by the Grant Accountant; primarily in the approval process. This will be a key tool in insuring that no transfer of funds is made into an unapproved object line code.
- (2) Follow up with personnel to discuss any other safeguard that could possibly be put into action; especially in coding of software. In researching and discussing this issue it seems we sometimes encounter a coding issue when purchasing software to a 63XX only to find out later it is a web-based program and therefore we must initiate a journal entry to change the object code to a 62XX.
- (3) The grant accountant will be closely monitoring these funds for continued compliance.

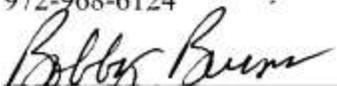
**Responsibilities and Timetable for above actions:**

Reviewed the budget for the Fund 284. There was money set aside for our Curriculum Department to expend for the purpose of early intervention. The original purchase order was done for software in a 63XX code. However, further research revealed it was in fact web-based and therefore would need to be coded to a 62XX. There was a budget transfer to move money from the 63XX into 62XX for this expenditure. The Grant Accountant should have disapproved the transfer until an amendment could have been done.

  
Fiscal Contact Signature  
Marcia Harbour, Grant Accountant  
972-968-6124

10 - 20 - 11

Date Signed

  
Superintendent's Signature  
(Approver)

10/20/2011

Date Signed