

# FREEMON, SHAPARD & STORY

*Certified Public Accountants*

## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Texas Boys Choir, Inc.  
3901 S. Hulen Street  
Fort Worth, TX 76109

Members of the Board of Directors:

We have audited the financial statements of Texas Boys Choir, Inc. (the Charter Holder) as of and for the year ended August 31, 2011 and 2010, and have issued our report thereon dated January 19, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered Texas Boys Choir, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Boys Choir, Inc.'s internal control over financial reporting.

A deficiency in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

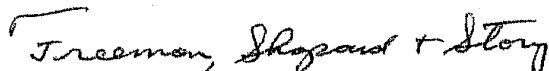
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Texas Boys Choir, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1 through 2011-3.

We noted certain matters that we reported to management of Texas Boys Choir, Inc. in a separate letter dated January 19, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Texas Education Agency and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Freemon, Shapard, & Story  
January 19, 2012

**TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2011**

I. Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	___ Yes <u>  X  </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes <u>  X  </u> No
Noncompliance material to financial statements noted?	___ Yes <u>  X  </u> No

Under the guidelines of OMB Circular A-133, a Single Audit was not required for the year ended August 31, 2011.

II. Financial Statement Findings

Finding 2011-1

*Criteria*

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

*Condition*

Fort Worth Academy of Fine Arts expenditures exceeded the final amended budget in eight functional categories for the year as per Exhibit E-1.1. However, only two functional categories exceeded ten percent of the final budgeted amount in Function 34-Student Transportation and Function 41-General Administration. Texas Elementary School of the Arts expenditures exceeded the final amended budget in four functional categories for the year as per Exhibit E-1.2; however, only two functional categories exceeded ten percent of final budgeted amount in Function 31-Guidance, Counseling, & Evaluation Services and Function 36-Cocurricular/Extracurricular Activities.

*Effect*

Expenditures were made without board approval.

*Cause*

Fort Worth Academy of Fine Arts and Texas Elementary School of the Arts did not budget sufficient amounts for expenditures.

*Recommendation*

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

*Management Response*

Fort Worth Academy of Fine Arts and Texas Elementary School of the Arts will monitor the budget more closely including making budget amendments approved by the Board when necessary in advance of spending funds.

Finding 2011-2

*Criteria*

New board members are required to receive twelve hours of board training their first year of service, and experienced board members are required to receive six hours of board training every year thereafter.

*Condition*

One experienced board member did not receive any board training.

*Effect*

This board member may not be aware of new charter school rules and regulations.

*Cause*

This board member did not attend the required board member training seminars.

*Recommendation*

All board members must receive the required board training every year.

*Management Response*

All board members will be required to attend board training every year. The board member who did not receive the training will either receive the training next year or will resign from the Board.

Finding 2011-3

*Criteria*

When an employee is hired, an I-9 should be completed by the employee and employer, and a W-4 should be completed by the employee. An I-9 is required for all employees hired after November 6, 1986, to prove that the employee is authorized to work in the United States.

*Condition*

Of the ten employees sampled for testing, four did not have I-9's on file, and three did not have W-4's on file.

*Effect*

Texas Boys Choir does not have any proof that they are checking the employment eligibility of their employees.

*Cause*

Texas Boys Choir believes that the I-9's and W-4's were completed at the date of hire and were misplaced during the construction and move.

*Recommendation*

Every employee should have a file that contains their contract, I-9, W-4, training, etc. These files should be easily accessible, and Texas Boys Choir should be able to pull them immediately when auditors or grantor agencies ask for them.

*Management Response*

New W-4's and I-9's have been completed for the employees that had missing I-9's and W-4's.

III. Findings and Questioned Costs for State and Federal Awards

None identified.

**TEXAS BOYS CHOIR, INC. (THE CHARTER HOLDER)  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2011**

Finding 2010-1

*Criteria*

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

*Condition*

Fort Worth Academy of Fine Arts expenditures exceeded the final amended budget in eight functional categories for the year as per Exhibit E-1.1. However, only three functional categories exceeded ten percent of the final budgeted amount in Function 34-Student Transportation, Function 35-Food Service, and Function 36-Cocurricular/Extracurricular Activities. Texas Elementary School of the Arts expenditures exceeded the final amended budget in six functional categories for the year as per Exhibit E-1.2; however, only three functional categories exceeded ten percent of final budgeted amount in Function 36-Cocurricular/Extracurricular Activities, Function 41-General Administration, and Function 53-Data Processing Services.

*Effect*

Expenditures were made without board approval.

*Recommendation*

The budget should be amended as required in advance of funds being spent for all functional level categories each year.

*Management Response*

Fort Worth Academy of Fine Arts and Texas Elementary School of the Arts will monitor the budget more closely throughout the year and amend the budget in advance of funds being spent.

*Status*

Although there were still findings in this area, there was only one material difference in Fort Worth Academy of Fine Arts Function 11-Instruction.

*Management's Explanation for not implementing the Recommendation*

The charter schools will continue to monitor expenditures and amend the budgets in advance of spending in the 2011-12 year.

Finding 2010-2

*Criteria*

Investment officers are required to receive ten hours of investment training every two years.

*Condition*

The investment officer did not receive any investment training in the 2009-10 year. The investment officer resigned from the Board on June 22, 2010, and no investment officer has been selected to take his place. This is especially critical since the charter holder has \$1,591,093 in investments.

*Effect*

The charter holder may not be aware of investment rules and regulations in regards to charter schools.

*Recommendation*

The Board must select an investment officer, and the investment officer must receive the required investment training every year.

*Management Response*

The Board will be advised to select an investment officer who will be required to attend the investment training.

*Status*

An investment officer was selected, and she received the required investment training.

*Management's Explanation for not implementing the Recommendation*

N/A

Finding 2010-3

*Criteria*

All investment activity must be recorded on the books.

*Condition*

The charter holder purchased \$1,588,017 of investments from Plains Capital Bank. The fair market value of these investments was \$1,561,497 at 8/31/10. The interest, dividends, realized gains and losses, and unrealized gains and losses were not recorded on the books.

*Effect*

The amount of investments on the books was incorrect throughout the year.

*Recommendation*

The finance manager must record the monthly activity of the investments throughout the year. The nature of the investments makes them very complicated; therefore, the finance manager may need to attend training in order to account for these investments.

*Management Response*

The finance manager will receive the appropriate training in order to correctly account for the investments throughout the year.

*Status*

The finance manager received the appropriate training and recorded all investment activity on the books for the year ended August 31, 2011.

*Management's Explanation for not implementing the Recommendation*

N/A

Finding 2010-4

*Criteria*

The accounting records must include all activity of the charter holder.

*Condition*

Frost Bank opened a checking account for construction on behalf of Texas Boys Choir. This account was not recorded on the charter holder's books, nor was the charter holder aware of its existence.

*Effect*

Accounting records did not correctly reflect all the construction activity.

*Recommendation*

The charter holder must record all construction activity in the accounting records.

*Management Response*

Now that the school is aware of this account, it will be monitored and recorded on the charter holder's accounting records. Construction is almost complete, and this account will be closed at that time.



*Status*

All activity was recorded in the accounting records.

*Management's Explanation for not implementing the Recommendation*

N/A

Finding 2010-5

*Criteria*

If an investment officer had a personal business relationship or a nepotism relationship with any entities seeking to sell an investment to the entity, a disclosure statement must be filed. When a conflict of interest occurs, a Board member should file an affidavit with the official record keeper of the charter holder before a vote or decision on a matter stating the nature and extent of the conflict of interest. When a conflict of interest exists, a Board member may not participate in the Board vote.

*Condition*

The charter holder purchased \$1,588,017 of investments from Plains Capital Bank. The fair market value of these investments was \$1,561,497 at 8/31/10. The investment officer who is also a Board member worked at Plains Capital Bank. Neither a disclosure statement nor an affidavit was filed. This Board member recommended the purchase to the Board and did not abstain from the deliberation or the vote.

*Effect*

A nepotism violation has occurred.

*Recommendation*

The charter holder must comply with all state and federal compliance rules including the nepotism and conflict of interest rules.

*Management Response*

The Board member/investment officer resigned from the Board. The charter holder will comply with all federal and state compliance rules in the future.

*Status*

Freemon, Shapard, and Story did not note any nepotism violations in the 2010-11 year.

*Management's Explanation for not implementing the Recommendation*

N/A

Finding 2010-6

*Criteria*

Employees paid in part from a single cost objective and in part with funds from other revenue sources must maintain time and effort documentation.

*Condition*

An employee was paid out of Foundation School Program, ESEA Title II Part A Teacher and Principal Training and Recruiting, and ARRA IDEA Part B Formula. No time and effort documentation was kept to document the time and effort for ESEA Title II Part A Teacher and Principal Training and Recruiting and ARRA IDEA Part B Formula.

*Effect*

There is no supporting documentation to support the ESEA Title II Part A Teacher and Principal Training and Recruiting and ARRA IDEA Part B Formula payroll expense.

*Recommendation*

The charter holder must require all employees paid in part with federal funds and in part with state and local funds to document their time and provide a signed copy to the payroll clerk. These records should be reviewed periodically to make sure allocation of employees' salaries corresponds with the time and effort documentation provided by the employees.

*Management Response*

The charter holder will provide employees paid with federal funds training on the requirements and how to document time and effort. Employees paid with federal funds will be required to provide a copy of that documentation each month to compare to their pay.

*Status*

Freemon, Shapard, and Story did not note any time and effort violations in the 2010-11 year.

*Management's Explanation for not implementing the Recommendation*

N/A