

New Frontiers Public Schools, Inc.

Compliance Report
August 31, 2017

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RSM US LLP

**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***

Independent Auditor's Report

To the Board of Directors
New Frontiers Public Schools, Inc.

We have audited, 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, the financial statements of New Frontiers Public Schools, Inc. (NFPS, Inc.) which comprise the statement of financial position as of August 31, 2017, the related statements of activities and changes in net assets and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NFPS, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NFPS, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of NFPS, Inc.'s internal control.

A deficiency in internal 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NFPS, Inc.'s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over financial reporting, as described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NFPS, Inc.'s financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NFPS, Inc.'s Response to Finding

NFPS, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NFPS, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NFPS, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NFPS, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
December 11, 2017

Report on Compliance for the Major Federal Program, Report on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
New Frontiers Public Schools, Inc.

Report on Compliance for the Major Federal Program

We have audited New Frontiers Public Schools, Inc.'s (NFPS, Inc.) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NFPS, Inc.'s major federal program for the year ended August 31, 2017. NFPS, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NFPS, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NFPS, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of NFPS, Inc.'s compliance.

Opinion on the Major Federal Program

In our opinion, NFPS, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on the major federal program is not modified with respect to this matter.

NFPS, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NFPS, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of NFPS, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NFPS, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NFPS, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. *A significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we considered to be a significant deficiency.

NFPS, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. NFPS, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of NFPS, Inc., as of and for the year ended August 31, 2017, and have issued our report thereon dated December 11, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

San Antonio, Texas
December 11, 2017

New Frontiers Public School, Inc.

**Schedule of Expenditures of Federal Awards
For The Year Ended August 31, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Passed through the State Department of Education:			
National Child Nutrition Cluster:			
National School Breakfast Program	10.553	714015	\$ 132,545
National School Lunch Program	10.555	713015	308,806
USDA Commodities—Noncash Award	10.555	N/A	20,109
Total National Child Nutrition Cluster			461,460
Fresh Fruit and Vegetable Program—Commodities Noncash Award	10.582	N/A	4,114
Total Passed Through State Department of Education			465,574
Total United States Department of Agriculture			465,574
<u>United States Department of Education:</u>			
Passed through the State Department of Education:			
Special Education Cluster:			
IDEA B—Formula	84.027A	156600010158056000	154,858
IDEA B—Preschool	84.173A	156610010158056000	2,452
Total Special Education Cluster			157,310
Title I Cluster:			
ESEA Title I—Part A	84.010A	1561010105805	294,341
ESEA Title I—Part A—Priority and Focus School	84.010A	16610112015805000	117,778
Total Title I Cluster			412,119
Title II, Part A—Improving Teacher Quality	84.367A	15694501015805	50,212
Total Passed Through State Department of Education			619,641
Passed through Education Service Center Region 20:			
Title III, Part A—English Language Enhancement	84.365	N/A	11,032
Title I, Part C—Migrant	84.011	N/A	3,579
Total passed through Education Service Center Region 20			14,611
Total United States Department of Education			634,252
Total Expenditures of Federal Awards			\$ 1,099,826

See notes to schedule of expenditures of federal awards.

New Frontiers Public Schools, Inc.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended August 31, 2017**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of NFPS, Inc. under programs of the federal government for the year ended August 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NFPS, Inc., it is not intended to, and does not, present the financial position, changes in net assets or cash flows of NFPS, Inc.

NFPS, Inc. had no federally funded insurance program or loan guarantees during the year ended August 31, 2017.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in Office of Management and Budget Circular A1-22, *Cost Principle for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

NFPS, Inc. has elected not to use the 10 percent minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Subrecipients

NFPS, Inc. did not pass any awards through to subrecipients for the year ended August 31, 2017.

Note 5. Federal Program Revenues Reconciliation

Total federal program revenues for the year ended August 31, 2017, are as follows:

Federal program revenues per schedule of expenditures of federal awards	\$ 1,099,826
Federal interest subsidy	<u>148,558</u>
Total federal program revenues	<u><u>\$ 1,248,384</u></u>



New Frontiers Public Schools, Inc.

Summary Schedule of Prior Audit Findings

FINANCIAL STATEMENT FINDING AND QUESTIONED COSTS

2016-001
Segregation of Duties
Significant Deficiency

Condition: During the audit, we noted there is an incompatible function of the bank reconciliation and signing of the checks.

Recommendation: We recommend these duties be maintained separately to maintain a good sound internal control environment. The bank reconciliation process can be delegated to the accounting staff.

Current status: The school has taken the corrective action recommended



New Frontiers Public Schools, Inc.

Summary Schedule of Prior Audit Findings (Continued)

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2016-002

U.S. Department of Agriculture

Child Nutrition Cluster

Special Test and Provision—Paid Lunch Equity Calculation

Significant Deficiency and Noncompliance

CFDA 10.555/10.553

Condition: The paid lunch equity calculation to be completed at the beginning of the year was not performed as required for the high school. The calculation only applies to the high school as it is the only school that charges for paid meals based on student eligibility. Subsequently, NFCS, Inc. performed the calculation for the school year 2015-2016 and noted that there was no price increase requirement needed and that the price charged for paid lunch was appropriate.

Recommendation: NFCS, Inc. should establish effective internal controls to ensure that paid equity is implemented properly and conducted at the beginning of the school year.

Current status: The paid lunch equity for school year 2016 – 2017 was completed and reviewed in early October 2016 when the auditors brought the issue to our attention during the FY 2015-2016 Audit. However the actual signature was not documented until July 2017.

2016-003

U.S. Department of Agriculture

Child Nutrition Cluster

Review of Student’s Eligibility

Significant Deficiency

CFDA 10.555/10.553

Condition: During the testing of eligibility, we noted there was no evidence of the review and approval process on the student application.

Recommendation: Although we noted no noncompliance issues, we recommend NFPS, Inc. implement a formal review and approval process for reviewing student eligibility. The review and approval should be signed and dated on the student’s application. Regulation also requires that the review process be documented by initialing and signing application.

Current status: The school has taken the corrective action recommended



New Frontiers Public Schools, Inc.

Summary Schedule of Prior Audit Findings (Continued)

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2016-004

**U.S. Department of Agriculture
Child Nutrition Cluster
Reporting—Meal Claims Submission
Significant Deficiency and Noncompliance
CFDA 10.555/10.553**

Condition: During our testing of the meal reimbursement claims report, we noted that the breakfast for the month of August 2016 for the high school only reported the total meals served as “free” counts and the meals served as “reduced” and “paid” were not included. In addition, the total meals served per the POS system did not agree to the meal claims report for the high school for the month of August 2016. We noted that the meal reimbursement claims report was reviewed by the same person in the accounting department. The lack of formal review and approval process may have contributed to the incorrect information reported.

Recommendation: We recommend meal reimbursement claim reports be prepared by an individual in the accounting department and then reviewed by a different individual in the accounting department. Also, documentation of such review of these reports should be made on the reports and maintained, preferably by signing and dating the respective reports.

Current status: The school has taken the corrective action recommended

2016-005

**U.S. Department of Agriculture
Child Nutrition Cluster
Activities Allowed or Un-allowed
Significant Deficiency and Noncompliance
CFDA 10.555/10.553**

Condition: During our testing of activities allowed or un-allowed, we noted two instances in which payroll expenses for two employees totaling \$1,613 were incorrectly coded to the Child Nutrition program in the accounting system. In addition, we noted one instance in which a purchase requisition for the Child Nutrition program was not reviewed for allowability in the amount of \$155.

Recommendation: Although there are controls in place, we recommend reviewers be careful in oversight for these costs that are not allowed.

Current status: The school has taken the corrective action recommended



New Frontiers Public Schools, Inc.

**Schedule of Findings and Questioned Costs
Year Ended August 31, 2017**

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued on the financial statements: Unmodified

2. Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None reported

3. Noncompliance material to financial statements noted? Yes X No

B. Federal Awards

1. Internal control over major program:

- Material weakness(es) identified? Yes X No
- Significant deficiency(es) identified? X Yes None reported

2. Type of auditor's report issued on compliance for major programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance? X Yes No

3. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.555, 10.553	National Child Nutrition Cluster

Dollar threshold used to distinguish between Type A or Type B programs: \$750,000

Auditee qualify as a low-risk auditee? X Yes No

New Frontiers Public Schools, Inc.

**Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2017**

II. FINANCIAL STATEMENT FINDING

A. Deficiency in Internal Control

2017-001: Segregation of Duties

Type of finding: Significant deficiency

Criteria: Proper segregation of duties are to be maintained for proper checks and balances.

Condition: During the audit, we noted the Executive Director of Finance can prepare and post journal entries without secondary approval. Also, the Executive Director of Finance has the authority to sign checks below \$10,000 without having an additional authorized check signer.

Cause: Lack of internal controls and segregation of duties.

Effect: Potential unintentional errors or fraud may occur.

Recommendation: We recommend these duties be either maintained separately or all journal entries must have a secondary review and approval. This will strengthen the internal control environment. We understand that the secondary reviewer may not be available at the time the journal entry is posted; therefore, in those instances, we recommend obtaining the secondary review shortly thereafter, with evidence of review documented.

Views of responsible officials and planned corrective actions: See corrective action plan.

B. Compliance Findings

None reported.

New Frontiers Public Schools, Inc.

**Schedule of Findings and Questioned Costs (Continued)
Year Ended August 31, 2017**

III. FEDERAL AWARDS FINDING AND QUESTIONED COSTS

A. Significant Deficiency in Internal Control and Compliance Finding

2017-002

**U.S. Department of Agriculture
National Child Nutrition Cluster**

Eligibility

Significant Deficiency and Noncompliance

CFDA 10.555/10.553

Criteria or specific requirement: A child's eligibility for free or reduced price meals under a National Child Nutrition Cluster program may be established by the submission of an annual application, a statement which furnishes such information as family income and family size or it can be directly certified.

Condition: During the testing of eligibility, we noted one student was improperly classified to receive free lunch based on the prior-year direct certification report. During our review of the direct certification report for the current school year, we noted the student was not part of that list and, therefore, was improperly classified to receive free lunch.

Questioned Cost: None

Context: The exception was noted on one of 25 student applications (i.e., 4 percent error rate) to test eligibility.

Cause: Lack of internal controls and management oversight during the review of student applications.

Effect: Potential misclassification between free, reduced or paid.

Recommendation: We recommend NFPS, Inc. implement a process to ensure the current direct certification report is used during the formal review and approval process of reviewing student eligibility. The review and approval must be signed and dated on the student's application to document evidence of such review and approval.

Views of responsible officials and planned corrective actions: See corrective action plan.



**New Frontiers Public Schools, Inc.
Corrective Action Plan
Year Ended August 31, 2017**

2017-001 – Segregation of Duties

New Frontiers Public Schools will require that ALL journal entries must have a secondary review and approval, which will consist of signing and dating the review.

2017-002 – Eligibility

- New Frontiers Public Schools PEIMS Coordinator will download Current Direct Certified list monthly (starting in July of each school year) from the Dept. of Agriculture TXUNPS site and code each student on the list as Direct Certified in the POS and in WebSmart. Students on the July/August list are not required to complete a lunch application for that school year.
- A copy of each monthly Direct Certified list will be given to the Admin Assistant at the High School. The Admin Assistant will send out Direct Certified letters during the summer and throughout the school year to all students on the list and update lunch applications for students who become Direct Certified during the school year by signing and dating the lunch application with the direct certification date of eligibility.



