

Great Hearts America—Texas

Compliance Report
Year Ended June 30, 2020

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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

Board of Directors
Great Hearts America—Texas

We have audited, in accordance with the 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 Great Hearts America—Texas (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2020, which included an emphasis-of-matter in relation to the adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and applied the standards on a modified retrospective basis. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

San Antonio, Texas
December 14, 2020



RSM US LLP

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

Independent Auditor's Report

Board of Directors
Great Hearts America—Texas

Report on Compliance for Each Major Federal Program

We have audited the Organization's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization'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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 the Organization'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 the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization 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 June 30, 2020.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 the Organization'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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-001 that we consider to be a significant deficiency.

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

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 the Organization as of and for the year ended June 30, 2020, and have issued our report thereon dated December 14, 2020, 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 14, 2020

Great Hearts America—Texas

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>United States Department of Agriculture:</u>			
Passed Through State Department of Education:			
National Child Nutrition Cluster:			
National School Breakfast Program	10.553	202020N109946	\$ 21,760
National School Lunch Program	10.555	202020N109946	183,191
Total National Child Nutrition Cluster			<u>204,951</u>
Total United States Department of Agriculture			<u>204,951</u>
<u>United States Department of Education:</u>			
Passed Through State Department of Education:			
Special Education Cluster:			
IDEA B Formula—Special Education	84.027A	H027A190008	448,632
Total Special Education Cluster			<u>448,632</u>
ESEA Title I Part A—Improving Basic Programs	84.010A	S010A190043	111,867
ESEA Title II—Supporting Effective Instruction	84.367A	S367A180041	15,900
Charter School Program	84.282A	U282A170018	1,756,681
ESSER Grant	84.425D	S425D200042	185,000
Total Passed Through State Department of Education			<u>2,518,080</u>
Total United States Department of Education			<u>2,518,080</u>
Total Expenditures of Federal Awards			<u>\$ 2,723,031</u>

See notes to schedule of expenditures of federal awards.

Great Hearts America—Texas

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Great Hearts America—Texas (the Organization) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported using the accrual basis of accounting. Such expenditures are recognized following 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

The Organization has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Subrecipients

The Organization did not pass any awards through to subrecipients for the year ended June 30, 2020.

Great Hearts America—Texas

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020**

None.

Great Hearts America—Texas

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

- 1. Type of auditor's report issued: Unmodified
- 2. Internal control over financial reporting:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None Reported
- 3. Noncompliance material to financial statements noted? Yes No

B. Federal Awards

- 1. Internal control over major programs:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? 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? Yes No

3. Identification of major programs:

CFDA Number	Name of Federal Program
84.282A	Charter School Program

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

Auditee qualified as low-risk auditee?: Yes No

(Continued)

Great Hearts America—Texas

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2020**

II. FINANCIAL STATEMENT FINDINGS

A. Deficiencies in Internal Control

None reported.

B. Compliance Findings

None reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Deficiencies in Internal Control

Finding 2020-001—Procurement

**United States Department of Education
Pass Through Entity: Texas Education Agency
Federal Program: Charter School Program
CFDA Number: 84.282 A
Federal Award Number: U282A170018
Federal Award Year: 2020
Type of Finding: Significant Deficiency**

Criteria: Uniform Guidance §200.318 states “The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law... The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.” The Organization’s procurement policy states “Although micro-purchases may be awarded without soliciting competitive quotations if the Organization considers the price to be reasonable, the Organization is nonetheless encouraged to obtain at least two quotes of which at least one was obtained from an authorized vendor. If it does not solicit competitive quotations, the Organization must document its determination of the reasonableness of the price offered by the vendor selected. For small purchases, the Superintendent or designee may procure goods and/or services through the solicitation of written quotes or informal bids from authorized vendors. If this method of procurement is used, the Superintendent or designee shall obtain no less than three written quotes or informal bids from authorized vendors.”

Condition: The Organization did not maintain documentation of the required number of quotes to support the history of procurement, as required by Uniform Guidance §200.318, for six transactions selected for testing.

Cause: The employees who made these purchases were not aware of the need to maintain the documentation after the purchases were finalized.

Effect: The Organization is in noncompliance with Uniform Guidance §200.318.

Questioned Costs: None.

Prevalence: Six of twenty-five transactions tested. Three were micro-purchases, and three were small purchases.

Great Hearts America—Texas

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2020**

Repeat Finding: No.

Recommendations: We recommend the Organization provide training to anyone involved with purchases utilizing federal awards to ensure adequate supporting documentation is obtained and maintained in accordance with Uniform Guidance and the Organization’s procurement policy.

Views of Responsible Officials: Management concurs with the finding. See corrective action plan.

B. Compliance Findings

Finding 2020-002—Procurement

**United States Department of Education
Pass Through Entity: Texas Education Agency
Federal Program: Charter School Program
CFDA Number: 84.282 A
Federal Award Number: U282A170018
Federal Award Year: 2020
Type of Finding: Noncompliance**

See finding 2020-001 above.



Finding 2020-001—Procurement (Internal Control)
United States Department of Education
Pass Through Entity: Texas Education Agency
Federal Program: Charter School Program
CFDA Number: 84.282 A
Federal Award Number: U282A170018
Federal Award Year: 2020
Type of Finding: Significant Deficiency

Condition: The Organization did not maintain documentation of the required number of quotes to support the history of procurement as required by Uniform Guidance §200.318 for 6 transactions selected for testing.

Recommendations: We recommend the Organization provide training to anyone involved with purchases utilizing federal awards to ensure adequate supporting documentation is obtained and maintained in accordance with Uniform Guidance and the Organization's procurement policy.

Corrective Action Plan:

On October 21, 2020 we contacted our legal counsel to provide some guidance after the initial findings from RSM on non-compliance and internal control deficiencies in our procurement process. We are taking the following actions to remediate the issue:

- Have purchasing policy under review
- Informed all stakeholders of the need for three quotes for any purchases made from grant funds and instructed the proper way to use "Buyboard."
- In process of scheduling training with stakeholders by early January in the following areas:
 - Purchasing law
 - Federal procurement standards
 - Fiscal accountability and responsibility

Person Responsible: Hector Santiago – Sr Director of Finance (finalize policy revisions and implement changes) and Rachel Rogoff - Senior Project Manager (schedule and manage training of key stakeholders) are the lead team responsible to implement corrective action.

Anticipated Completion Date: Training and policy revisions – end of January 2021.

Finding 2020-002—Procurement (Compliance)
United States Department of Education
Pass Through Entity: Texas Education Agency
Federal Program: Charter School Program
CFDA Number: 84.282 A
Federal Award Number: U282A170018
Federal Award Year: 2020
Type of Finding: Noncompliance

Condition: The Organization did not maintain documentation of the required number of quotes to support the history of procurement as required by Uniform Guidance §200.318 for 6 transactions selected for testing.

Recommendations: We recommend the Organization provide training to anyone involved with purchases utilizing federal awards to ensure adequate supporting documentation is obtained and maintained in accordance with Uniform Guidance and the Organization's procurement policy.



Corrective Action Plan:

On October 21, 2020 we contacted our legal counsel to provide some guidance after the initial findings from RSM on non-compliance and internal control deficiencies in our procurement process. We are taking the following actions to remediate the issue:

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