

February 1, 2019

The Honorable Members of the State Board of Education  
1701 North Congress Avenue  
Austin, TX 78701-1494

Dear State Board of Education Members:

Title 19 Texas Administrative Code (TAC) §109.21 requires the commissioner of education to report to the State Board of Education at least annually on the progress of each fiscal year's audit plan. In accordance with that section, following is a description of the status of audit reports and related activities for the agency's 2018 fiscal year, ended August 31, 2018.

### **Organization and Personnel**

Duties related to student attendance reviews, annual financial and compliance reports reviews, special allotment reviews, and financial accountability ratings continue to be administered by the Division of Financial Compliance, which reports to the chief school finance officer, Leo Lopez. Duties related to federal grant reviews and federal accountability are handled by a separate division.

In fiscal year 2018 the division's focus was to include review of student attendance data and to provide oversight of the student attendance accounting handbook, reviews of annual financial and compliance reports and to issue financial accountability ratings. The division continued to review procedures and training material for special allotment funds to ensure compliance and accountability for these supplemental funds. Also the division selected six school districts and charter schools to pilot the new special allotment monitoring program reviews and to help develop the review program for the special allotment compliance project. These special allotment funds include funding for special education, compensatory education, bilingual education, career and technology education, gifted and talented education, and high school education for all school districts and open-enrollment charter schools, including full-time virtual schools. The division continued the undertaking of a complete rewrite of the Financial Accountability System Resource Guide (FASRG).

Other reviews included district depository contracts, work paper reviews of certified public accountants (CPA) who audit school district and charter schools, superintendent severance payments, financial exigency, and processing district's fiscal year changes. A continued complete rewrite of the audit program for work paper reviews of CPA in fiscal year 2018 to align the program with current industry standards. Certain districts and charter schools identified as part of a risk assessment, are selected for a review; the review consists of examining business office procedures, internal controls to comply with the FASRG, generally accepted accounting principles, and best practices and followed up with recommendations and request for a course

of action from the entity. In fiscal year 2018, four applications to operate a charter school were reviewed and four on-site visits were conducted to assist first year charter schools.

### Annual Audit Plan and Division Activities

The Division of Financial Compliance adhered to the annual audit plan that was provided to the Committee on School Finance/Permanent School Fund in July 2017 with certain exceptions. The division had turnover in personnel in key positions that are currently being replaced. The following activities remain a priority of the division: student attendance compliance reviews and investigations, review of annual financial and compliance reports, issuing financial accountability ratings, CPA work paper reviews, special allotment monitoring reviews, and providing training, updated guidance documents and answering our customer questions daily.

The following table shows the summary of the review activities of the division for the 2018 fiscal year by type; additional detail and listing of other work performed is provided in the attachment.

<b>Activity</b>	<b>Status</b>	
Student Attendance		
--Reviews	97	<i>Completed</i>
	23	<i>in progress</i>
--Correspondence Investigations	3	<i>Completed</i>
	5	<i>in progress</i>
--Charter School Closeout Reviews	4	<i>Completed</i>
	0	<i>in progress</i>
Annual Financial and Compliance Report Reviews	989	<i>Completed</i>
CPA Work Paper Reviews	10	<i>Completed</i>
	0	<i>in progress</i>
Superintendent Severance Payments	34	<i>Completed</i>
	7	<i>in progress</i>
TEA Mailbox Questions/Research/Answer		
--Financial Accountability	375+	<i>Completed</i>
--Student Attendance Accounting & Audits	325+	<i>Completed</i>
--School Audits	200+	<i>Completed</i>
Fiscal Management Reviews	2	<i>Completed</i>
	1	<i>in progress</i>
School First Ratings Issued	1194	<i>Completed</i>
Depository Contracts	203	<i>ISD and Charters</i>

The division completed 97 reviews of student attendance data, which included desk and compliance reviews. These reviews resulted in questioned costs of \$946,070 related to the errors discovered. In addition, three correspondence investigations of student attendance data were also completed. Closeout reviews were done for four charter schools in their final year of operation, which resulted in questioned costs totaling \$275,514.

The Texas Education Code (TEC), §44.008(e) requires division staff members to review every public school annual financial and compliance reports that have been audited by certified independent auditors. In its reviews, the division uses financial statement data to verify year-end financial data submitted through the Public Education Information Management System (PEIMS). Division staff members identify problems such as inaccurate PEIMS data, noncompliance with laws or rules, insolvency, and potential default on bonded indebtedness and then communicate with local education agencies regarding required corrective action. In addition, the division reviews electronically submitted annual financial and compliance report information to verify that no sensitive or confidential information was disclosed. During the 2018 fiscal year, the division reviewed and issued letters or reports on 989 annual financial and compliance reports.

The division has limited its investigations to only student attendance related investigations. Therefore, some of the efforts of the division have been refocused to reviewing and monitoring the state special allotments; special education, career and technology, state compensatory, bilingual, gifted and talented, and high school education. The review and monitoring program progressed to selecting pilot districts and charter school to test the audit program. The division performs fiscal management reviews of school districts and charter schools that are assigned as high risk because there are identified issues in their annual financial and compliance report that range from multiple years of the same findings, to a sudden decrease in the entity's fund balance or net position. In fiscal year 2018 the division completed two reviews and started another.

The division completed desk reviews of superintendent severance-payment disclosures submitted by school districts resulting in \$457,409 reductions in Foundation School Program (FSP) funding. Other severance payments were in compliance with the statutory required amounts.

The division performed work paper reviews of five certified public accountant (CPA) and division staff members also checked Texas State Board of Public Accountancy records to determine whether each CPA performing audits of school districts and charter schools held a valid license and whether the CPA's firm had an unexpired firm license. In March 2015 Title 19 Texas Administrative Code (TAC) §109.23(d)(2)(a) was amended to strengthen the role of the external auditor performing the school district and charter school annual financial audits, which requires that the CPA firm must be a member of the AICPA Governmental Audit Quality Center and adhere to its quality control criteria.

In accordance with the TEC, §45.208, related to school depository contracts, the division reviewed approximately 23 school district depository contract files; this includes surety bonds, extensions and statements. Also review 180 charter school depository information.

A major undertaking for the division which began in fiscal year 2016 and continued through 2018 is to completely rewrite and consolidate the current 10 modules of the Financial Accountability System Resource Guide which is adopted by 19 TAC §109.41. Publication of the updated streamlined modules is tentatively planned to occur in fiscal year 2019.

Division staff members held and participated in several workshops, providing guidance to school district and charter school personnel on a wide range of topics. These topics included supplemental allotment programs, changes to financial reporting standards, changes to student attendance accounting and new laws just coming into effect. Division staff members also spent hundreds of hours providing information on statutory and regulatory requirements to charter school and district officials and other individuals by phone and correspondence. Also the division made changes to the Financial Integrity Rating System of Texas (FIRST). Staff members researched and responded to over 900 requests for information received through the division's three mailboxes for Financial Accountability, School Audits, and Student Attendance Accounting.

### **Status of Division Reviews and Related Activities**

The attached document presents the status of division activities conducted during the 2018 fiscal year. As of the fiscal year ended August 31, 2018 the adjustments resulting from attendance reviews and correspondence investigations, reviews of charter closeouts, on-site special accreditation investigations and fiscal management reviews resulted in questioned costs of \$1,221,584 owed to the state.

Respectfully submitted,

David Marx  
Director, Financial Compliance Division

**ATTACHMENT**

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Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	FR17-001	057-909	Garland ISD	9/15/2017	\$ (41,658.00)
2	DA17-054	226-907	Grape Creek ISD	9/15/2017	\$ (14,655.00)
3	DA17-022	094-901	Seguin ISD	9/15/2017	\$ (2,383.00)
4	DA17-041	177-902	Sweetwater ISD	10/3/2017	\$ (748.00)
5	DA17-020	092-903	Longview ISD	10/3/2017	\$ (3,442.00)
6	DA17-046	210-904	Tenaha ISD	10/20/2017	\$ (7,064.00)
7	DA17-001	011-902	Elgin ISD	10/20/2017	\$ 982.00
8	DA17-042	184-909	Brock ISD	10/31/2017	\$ (6,862.00)
9	DA17-039	163-908	Medina Valley ISD	10/31/2017	\$ (17,285.00)
10	DA17-037	146-902	Dayton ISD	10/31/2017	\$ (4,024.00)
11	DA17-034	130-901	Boerne ISD	10/31/2017	\$ (5,732.00)
12	DA17-030	108-804	Midvalley Academy Charter District	10/31/2017	\$ (5,245.00)
13	DA17-029	105-906	Hays CISD	10/31/2017	\$ (3,079.00)
14	DA17-025	101-916	La Porte ISD	10/31/2017	\$ -
15	DA17-017	089-901	Gonzales ISD	10/31/2017	\$ (639.00)
16	DA17-014	072-802	Erath Excels Academy, Inc.	10/31/2017	\$ (470.00)
17	DA17-007	049-903	Valley View ISD	10/31/2017	\$ (5,721.00)
18	CR17-003	015-836	Eleanor Kolitz Hebrew Language Academy	12/14/2017	\$ -
19	CR17-013	105-803	Ki Charter Academy	12/21/2017	\$ -
20	CR17-005	057-848	International Leadership of Texas	12/21/2017	\$ -
21	CR17-002	178-915	West Oso ISD	12/21/2017	\$ -
22	DA17-055	227-806	University of Texas University Charter School	1/5/2018	\$ (2,273.00)
23	DA17-053	226-903	San Angelo ISD	1/5/2018	\$ 1,651.00
24	DA17-047	213-801	Brazos River Charter School	1/5/2018	\$ (3,276.00)
25	DA17-033	123-907	Port Arthur ISD	1/5/2018	\$ 2,768.00
26	DA17-031	108-909	Pharr-San Juan-Alamo ISD	1/5/2018	\$ (61,200.00)
27	DA17-024	101-907	Cypress-Fairbanks ISD	1/5/2018	\$ (30,934.00)
28	DA17-013	071-902	El Paso ISD	1/5/2018	\$ (169,676.00)
29	DA17-012	071-901	Clint ISD	1/5/2018	\$ (349.00)
30	DA17-010	057-916	Richardson ISD	1/5/2018	\$ (3,669.00)
31	DA17-004	015-908	South San Antonio ISD	1/5/2018	\$ (8,653.00)
32	DA17-003	015-905	Edgewood ISD	1/8/2018	\$ (65,260.00)
33	CR17-012	220-819	High Point Academy	3/7/2018	\$ -
34	CR17-001	015-834	Basis Texas	3/7/2018	\$ -
35	DA17-027	101-919	Spring ISD	3/9/2018	\$ (14,947.00)
36	DA17-023	101-905	Channelview ISD	3/9/2018	\$ (40,971.00)
37	DA17-016	084-910	Clear Creek ISD	3/9/2018	\$ 55,225.00
38	CR17-007	057-847	Village Tech Schools	3/20/2018	\$ -
39	AR15-001	227-805	Texas Empowerment Academy	3/27/2018	\$ -
40	FR18-001	206-901	San Saba ISD	5/1/2018	\$ (660.00)
41	CR17-015	057-849	Trinity Environmental Academy	5/1/2018	\$ -
42	CR17-014	227-828	The Excel Center	5/1/2018	\$ -
43	CR17-011	101-870	Beta Academy	5/1/2018	\$ -
44	CR17-010	227-826	Montessori For All	5/1/2018	\$ -

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Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
45	CR17-009	071-810	El Paso Leadership Academy	5/1/2018	\$ -
46	CR17-004	015-835	Great Hearts Texas	5/1/2018	\$ -
47	CR17-020	085-903	Southland ISD	5/15/2018	\$ -
48	CR17-008	015-837	Carpe Diem School	5/16/2018	\$ -
49	CR17-006	101-868	The Pro-Vision Academy	6/4/2018	\$ -
50	CR17-026	110-901	Anton ISD	6/14/2018	\$ -
51	CR17-017	001-902	Cayuga ISD	6/14/2018	\$ -
52	F17-004	001-907	Palestine ISD	6/14/2018	\$ -
53	F17-003	181-906	West Orange-Cove CISD	6/14/2018	\$ -
54	F17-001	241-903	El Campo ISD	6/14/2018	\$ -
55	DA17-051	220-920	White Settlement ISD	6/29/2018	\$ (39,018.00)
56	DA17-038	158-901	Bay City ISD	6/29/2018	\$ (50,234.00)
57	DA17-011	061-914	Little Elm ISD	6/29/2018	\$ (98,938.00)
58	DA17-008	057-834	Evolution Academy Charter School	6/29/2018	\$ (22,160.00)
59	CR17-024	022-902	Marathon ISD	7/10/2018	\$ -
60	CR17-022	061-804	Leadership Prep School	7/10/2018	\$ -
61	CR17-021	108-914	La Villa ISD	7/10/2018	\$ -
62	F17-009	034-905	Linden-Kildare CISD	7/18/2018	\$ -
63	F17-007	084-908	Hitchcock ISD	7/18/2018	\$ -
64	F17-006	001-908	Westwood ISD	7/18/2018	\$ -
65	DA17-057	236-902	Huntsville ISD	7/26/2018	\$ (10,491.00)
66	DA17-049	220-912	Crowley ISD	7/27/2018	\$ (13,681.00)
67	DA17-026	101-917	Pasadena ISD	7/27/2018	\$ (14,319.00)
68	DA17-015	079-901	Lamar CISD	7/27/2018	\$ (107,397.00)
69	DA17-006	043-912	Prosper ISD	7/27/2018	\$ (80,090.00)
70	DA17-019	091-906	Sherman ISD	7/30/2018	\$ (3,719.00)
71	FR18-002	101-838	Southwest School	7/31/2018	\$ (38,963.00)
72	F17-010	196-902	Woodsboro ISD	8/7/2018	\$ -
73	DA16-042	057-816	A W Brown-Fellowship	6/28/2018	\$ -
74	DA16-043	057-832	Alpha Charter School	9/1/2017	\$ -
75	DA16-037	015-834	Basis Texas	6/28/2018	\$ -
76	DA16-049	101-847	Beatrice Mayes Institute Charter School	6/28/2018	\$ -
77	DA16-057	193-801	Big Springs Charter School	6/28/2018	\$ -
78	DA16-039	057-811	Children First Academy of Dallas	9/1/2017	\$ -
79	DA16-046	092-801	East Texas Charter Schools	6/28/2018	\$ -
80	DA16-045	071-806	Harmony Science Acad (El Paso)	6/28/2018	\$ -
81	DA16-055	161-807	Harmony Science Acad (Waco)	6/28/2018	\$ -
82	DA16-048	101-846	Harmony Science Academy	6/28/2018	\$ -
83	DA16-058	227-816	Harmony Science Academy (Austin)	6/28/2018	\$ -
84	DA16-053	108-802	Horizon Montessori Public Schools	6/28/2018	\$ -
85	DA16-054	108-807	Idea Public Schools	6/28/2018	\$ -
86	DA16-038	043-801	Imagine International Academy of North Texas	6/28/2018	\$ -
87	DA16-044	057-848	International Leadership of Texas	6/28/2018	\$ -
88	DA16-032	246-913	Leander ISD	9/1/2017	\$ (6,811.00)

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Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
89	DA16-035	014-804	Orenda Charter School	6/28/2018	\$ -
90	DA16-056	183-801	Panola Charter School	6/28/2018	\$ -
91	DA16-034	014-803	Priority Charter Schools	6/28/2018	\$ -
92	DA16-050	101-853	Promise Community School	6/28/2018	\$ -
93	DA16-036	015-815	Radiance Academy of Learning	6/28/2018	\$ -
94	DA16-059	234-801	Ranch Academy	6/28/2018	\$ -
95	DA16-033	014-801	Richard Milburn Alter HS (Killeen)	6/28/2018	\$ -
96	DA16-052	105-802	Texas Preparatory School	6/28/2018	\$ -
97	DA16-040	057-813	Trinity Basin Preparatory	6/28/2018	\$ -
<b>Total</b>		<b>97</b>	<b>Student Attendance Reviews Completed</b>		<b>\$ (946,070.00)</b>

Item No.	Review No.	County District Number	District Name
1	CR17-016	236-801	Raven School
2	CR17-018	101-855	Meyerpark Elementary
3	CR17-019	232-901	Knippa ISD
4	CR17-023	246-801	Meridian World School LLC
5	CR17-025	044-902	Wellington ISD
6	CR17-027	133-902	Hunt ISD
7	CR17-028	161-908	Mart ISD
8	CR17-029	169-906	Gold Burg ISD
9	CR17-030	235-901	Bloomington ISD
10	CR17-031	125-902	Ben Bolt-Palito Blanco ISD
11	CR17-032	168-902	Loraine ISD
12	CR17-033	018-903	Morgan ISD
13	CR17-034	248-902	Wink-Loving ISD
14	CR17-035	206-902	Richland Springs ISD
15	CR17-036	198-905	Hearne ISD
16	CR17-037	066-903	Freer ISD
17	CR17-038	156-902	Stanton ISD
18	CR17-039	055-901	Culberson County-Allamoore ISD
19	CR17-040	231-901	McCamey ISD
20	F17-002	057-910	Grand Prairie ISD
21	F17-005	161-914	Waco ISD
22	F17-008	015-911	East Central ISD
23	DA15-025	126-903	Cleburne ISD
<b>Total</b>		<b>23</b>	<b>Student Attendance Reviews -- In Progress</b>



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<b>Item No.</b>	<b>Review No.</b>	<b>County District</b>	<b>District Name</b>	<b>Final Mailed</b>	<b>Final Adjustment</b>
1	CC16-004	061-802	North Texas Collegiate Academy	5/1/2018	\$ -
2	CC18-001	199-901	Rockwall ISD	6/14/2018	\$ -
3	CC16-002	163-903	Natalia ISD	6/15/2018	\$ -
<b>Total</b>		<b>3</b>	<b>Student Attendance Complaint Investigations Completed</b>		<b>\$ -</b>

<b>Item No.</b>	<b>Review No.</b>	<b>County District Number</b>	<b>District Name</b>
1	CC17-001	043-912	Prosper ISD
2	CC15-001	015-916	Judson ISD
3	CC15-005	031-901	Brownsville ISD
4	CC16-006	233-901	San Felipe-Del Rio CISD
5	CC16-005	240-903	United ISD
<b>Total</b>		<b>5</b>	<b>Student Attendance Investigations -- In Progress</b>

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Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CO17-012	015-823	San Antonio Technology Academy	11/3/2017	\$ (44,215.00)
2	CO17-011	101-867	Fallbrook College Preparatory Academy	11/21/2017	\$ (199,282.00)
3	CO17-008	015-803	Higgs Carter King Gifted & Talented Charter Acad	10/10/2017	\$ -
4	CO18-001	015-837	Carpe Diem Schools	8/7/2018	\$ (32,017.00)
<b>Total</b>		<b>4</b>	<b>Student Attendance Charter School Close Outs Completed</b>		<b>\$ (275,514.00)</b>

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<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Review Date</b>
1	125-902	Ben Bolt-Palito Blanco ISD	1/26/2018
2	108-914	La Villa ISD	8/29/2018
<b>Total</b>	<b>2</b>	<b>Fiscal Management Reviews Completed</b>	

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<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	025-908	Brookesmith ISD
<b>Total</b>	<b>1</b>	<b>Fiscal Management Reviews--<i>In Progress</i></b>

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Item No.	County District Number	District Name	Review Date	Statutory Adjustment
1	007-906	Poteet ISD	3/16/2018	\$ -
2	015-905	Edgewood ISD	7/25/2018	\$ -
3	016-901	Johnson City ISD	12/5/2017	\$ -
4	018-908	Cranfills Gap ISD	11/7/2017	\$ -
5	025-908	Brookesmith ISD	11/7/2017	\$ (86,862.00)
6	042-901	Coleman ISD	6/1/2018	\$ -
7	056-901	Dalhart ISD	7/25/2018	\$ -
8	057-000	Dallas County Schools	12/6/2017	\$ -
9	057-906	Desoto ISD	7/24/2018	\$ -
10	057-909	Garland ISD	10/17/2017	\$ (90,583.00)
11	063-903	Spur ISD	11/9/2017	\$ -
12	069-901	Rocksprings ISD	11/29/2017	\$ -
13	094-901	Seguin ISD	12/1/2017	\$ -
14	105-906	Hays Consolidated ISD	1/9/2018	\$ -
15	108-902	Donna ISD	3/16/2018	\$ -
16	116-905	Greenville ISD	10/20/2017	\$ -
17	116-909	Wolfe City ISD	7/25/2018	\$ -
18	128-903	Runge ISD	7/24/2018	\$ -
19	130-902	Comfort ISD	12/8/2017	\$ -
20	134-901	Junction ISD	11/1/2017	\$ -
21	139-911	North Lamar ISD	12/6/2017	\$ (94,125.00)
22	140-905	Olton ISD	3/9/2018	\$ -
23	148-903	Higgins ISD	1/10/2018	\$ -
24	154-903	North Zulch ISD	10/30/2017	\$ -
25	174-903	Garrison ISD	8/28/2018	\$ -
26	178-915	West Oso ISD	10/24/2017	\$ -
27	180-901	Boys Ranch ISD	10/23/2017	\$ (58,208.00)
28	220-912	Crowley ISD	8/20/2018	\$ (90,707.00)
29	227-904	Pflugerville ISD	10/24/2017	\$ -
30	229-905	Spurger ISD	7/24/2018	\$ -
31	234-904	Grand Saline ISD	1/22/2018	\$ (36,924.00)
32	235-901	Bloomington ISD	11/15/2017	\$ -
33	247-903	La Vernia ISD	6/19/2018	\$ -
34	250-905	Yantis ISD	8/10/2018	\$ -
<b>Total</b>	<b>34</b>	<b>Superintendent's Severance Reviews Completed</b>		<b>\$ (457,409.00)</b>

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<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	012-901	Seymour ISD
2	015-916	Judson ISD
3	068-901	Ector County ISD
4	074-903	Bonham ISD
5	080-901	Mount Vernon ISD
6	101-914	Katy ISD
7	188-901	Amarillo ISD
<b>Total</b>	<b>7</b>	<b>Superintendent's Severance Reviews -- In Progress</b>

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<b>Item No.</b>	<b>Activities</b>	<b>Counts</b>
1	New Charter School First Year Visits	4
2	Responses to TEA's Q&A Mailboxes (Financial Accountability, School audits and Attendance)	900+
3	CPA Workpaper Reviews -- Completed	10
4	Review of Annual Financial and Compliance Reports	989
5	Research for School Finance Reform Committee	multi
6	Supplemental Allotment Pilot Program	5
7	School First Ratings for FYE 2017	1194
8	Trainings throughout Texas covering FIRST, FASRG, SAAH, SAMP, etc.	30+
9	Financial Exigency Reviewed	3
10	Fiscal Year Changes	17
11	New Charters Schools Applications Reviewed	4
12	Depository Contracts and/or Extensions Reviews	203
13	FASRG Updated draft prepared for comments	