

January 31, 2020

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

Dear State Board of Education Members:

Under 19 Texas Administrative Code (TAC) §109.21, the commissioner of education is required 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, the following is a description of the status of audit reports and related activities for the agency's 2019 fiscal year, which ended on August 31, 2019.

### **Organization and Personnel**

Duties related to student attendance reviews, annual financial and compliance report (AFR) reviews, special allotment reviews, and financial accountability ratings continued to be administered by the Financial Compliance Division. In addition, the division became responsible for auditing SHARS (School Health and Related Services) and administering all aspects of the State Compensatory Education (SCE) program.

In fiscal 2019, the division continued to advise and partner with districts and charters to ensure that accurate financial and student records were being kept and that they remained in compliance with laws and regulations. The division also continued to review student attendance data and AFRs, and issue financial accountability ratings. Other tasks of the division included reviewing the proper coding of financial data and student data, district depository contracts, work papers of certified public accountants (CPA) who audit school district and charter schools, superintendent severance payments, and financial exigency. The team processed district's fiscal year changes updated the *Student Attendance Accounting Handbook* and completed a rewrite of the *Financial Accountability System Resource Guide* (FASRG) as well.

Because the 86th Legislature was in session, the division provided major analysis on various bills related to school finance. The legislature enacted sweeping changes in laws related to school districts and charter schools, including major modifications to school finance in House Bill 3 (HB 3). Because of the changes of HB 3, the division added audit procedures to three major areas: AFRs, student attendance, and special allotment monitoring. In addition, the division began implementing changes to the SCE program.

### **Annual Audit Plan and Division Activities**

The Financial Compliance Division adhered to the annual audit plan that was provided to the Committee on School Finance/Permanent School Fund in June 2018, with a few exceptions due

to limited resources. The division had turnover in personnel in key positions that are currently being replaced. The division continued to prioritize reviewing and investigating student attendance compliance, reviewing AFRs, issuing financial accountability ratings, reviewing CPA work papers, conducting special allotment monitoring under the new rules, providing training, updating guidance documents, and answering customer questions daily.

The following table summarizes the review activities of the division for the 2019 fiscal year by type. Additional details and a list of other work performed by the division are provided in the attachment.

<b>Activity</b>	<b>Status</b>
<b>Student Attendance</b>	
--Reviews	58 <i>Completed</i> 56 <i>in progress</i>
--Correspondence Investigations	3 <i>Completed</i> 5 <i>in progress</i>
--Charter School Closeout Reviews	1 <i>Completed</i> 0 <i>in progress</i>
<b>SHARS (School Health and Related Services)</b>	
--Audits/Reviews	20 <i>Completed</i> 5 <i>in progress</i>
--Compliant Investigations	4 <i>Completed</i> 3 <i>in progress</i>
Annual Financial and Compliance Report Reviews	1,407 <i>Completed</i>
CPA Work Paper Reviews	0 <i>Completed</i> 11 <i>in progress</i>
Superintendent Severance Payments	34 <i>Completed</i> 7 <i>in progress</i>
TEA Mailbox Questions/Research/Answer	400+ <i>Completed</i>
Fiscal Management Reviews	1 <i>Completed</i> 1 <i>in progress</i>
School First Ratings Issued	1,192 <i>Completed</i>

The division completed 58 reviews of student attendance data, including both desk and compliance reviews. These reviews resulted in the recovery of \$693,293 of taxpayer funds because of the errors that were discovered. In addition, three student attendance investigations were also completed, resulting in the recovery of \$849,071 in funds.

The Texas Education Code (TEC), §44.008(e), requires division staff members to review every public school AFR that has been audited by certified independent auditors. In the reviews, the division uses financial statement data to verify year-end financial data submitted through the Texas Student Data System Public Education Information Management System (TSDS PEIMS). Division staff members identify problems such as inaccurate PEIMS data, noncompliance with laws or rules, insolvency, and potential default on bonded indebtedness. They then communicate with local education agencies regarding required corrective action. In addition, the division reviews electronically submitted AFR information to verify that no sensitive or confidential information was disclosed. During the 2019 fiscal year, the division reviewed and issued letters or reports on 1,407 AFRs.

The division's responsibility for SHARS includes on-site reviews, desk reviews, complaints investigations, trainings, and coordination with the Texas Health and Human Services Commission (HHSC). A total of 20 SHARS audit/reviews were completed and five were still in progress at the end of the fiscal year. In addition, the Financial Compliance Division initiated seven investigation into SHARS complaints and completed five by fiscal year-end.

The division is currently retooling its audit plan for the special allotments. Though this endeavor advanced past the pilot phase during the prior fiscal year, the 86th Legislature made major changes to these programs as part of HB 3. Because the purpose of this audit plan was to review, identify, and correct districts that were out of compliance with spending requirements for these programs, it was necessary to update rules and regulations before continuing to review and advise on the special allotments.

The division's audit plan for fiscal management reviews of school districts and charter schools is also being updated. With the new legislative changes, the reviews will focus on the division's key purpose of compliance. By the end of fiscal year 2019, the division began one review with a new employee training for the job.

The division completed desk reviews of superintendent severance payment disclosures submitted by school districts. These reviews resulted in \$184,313 in reductions in Foundation School Program (FSP) funding. Other severance payments were in compliance with the statutorily required amounts.

The division began work paper reviews of 11 CPAs. Division staff members also checked Texas State Board of Public Accountancy records to determine if each CPA performing audits of school districts and charter schools held a valid license and if the CPA's firm had an unexpired firm license.

In March 2015, 19 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. Legislative

changes require every CPA firm to be a member of the AICPA Governmental Audit Quality Center and adhere to its quality control criteria.

In accordance with the TEC, §45.208, which relates to school depository contracts and charter school depository information, the division reviewed approximately 1,200 school district depository contract files. These files included surety bonds, extensions, and statements.

A major undertaking for the division was to completely rewrite and consolidate the 11 modules of the FASRG. This project began in fiscal 2016 and was completed in fiscal 2019. The publication of the updated streamlined modules was approved, and they were formally issued in July 2019. The effort put forth by division staff on this successful achievement should be recognized, even though the division is already working on the next update to FASRG to reflect the changes mandated by the 86th Legislature.

The division staff continued to assist newly approved charter schools by going onsite and reviewing the operations of the charter school in the areas of student attendance, business office operations, and highlighting key areas in the SAAH, FASRG, and going through the FIRST indicators in detail.

Division staff members held and participated in several workshops that provided guidance to school district and charter school personnel. Topics covered included supplemental allotment programs, changes to financial reporting standards, changes to student attendance accounting, and new laws on the horizon. Many staff members from the division participated in speed training districts on HB 3 changes.

Division staff members also spent hundreds of hours providing information on statutory and regulatory requirements to charter school officials, district officials, and other individuals by phone and correspondence. Staff members researched and responded to over 400 requests for information received through the division's three mailboxes (financial accountability, school audits, and student attendance accounting).

Additionally, the division made changes to the Financial Integrity Rating System of Texas (FIRST).

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

The attached document presents the status of division activities conducted during the 2019 fiscal year. As of August 31, 2019, the adjustments resulting from attendance reviews and correspondence investigations, reviews of charter closeouts, on-site special accreditation investigations, and fiscal management reviews resulted in \$1,726,677 owed to the state.

Respectfully submitted,

David Marx  
Director, Financial Compliance Division

Attachment

# ATTACHMENT

Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CR17-029	169-906	Gold Burg ISD	9/11/2018	\$ -
2	F17-002	057-910	Grand Prairie ISD	9/19/2018	\$ -
3	F17-008	015-911	East Central ISD	9/19/2018	\$ -
4	CR17-028	161-908	Mart ISD	10/10/2018	\$ -
5	DA17-035	133-903	Kerrville ISD	10/26/2018	\$ (103,829.00)
6	DA17-059	240-903	United ISD	10/26/2018	\$ (16,160.00)
7	CR17-030	235-901	Bloomington ISD	10/31/2018	\$ -
8	CR17-031	125-902	Ben Bolt-Palito Blanco ISD	10/31/2018	\$ -
9	CR17-016	236-801	Raven School	11/15/2018	\$ -
10	DA15-025	126-903	Cleburne ISD	11/27/2018	\$ (16,000.00)
11	CR17-023	246-801	Meridian World School LLC	12/11/2018	\$ -
12	CR17-025	044-902	Wellington ISD	12/11/2018	\$ -
13	CR17-027	133-902	Hunt ISD	12/11/2018	\$ -
14	CR17-035	206-902	Richland Springs ISD	12/11/2018	\$ -
15	CR17-032	168-902	Loraine ISD	1/17/2019	\$ -
16	CR17-019	232-901	Knippa ISD	1/23/2019	\$ -
17	CR17-038	156-902	Stanton ISD	1/23/2019	\$ -
18	CR17-034	248-902	Wink-Loving ISD	1/30/2019	\$ -
19	CR17-033	018-903	Morgan ISD	2/8/2019	\$ -
20	CR17-018	101-855	Meyerpark Elementary	2/12/2019	\$ -
21	DA18-046	057-916	Richardson ISD	3/13/2019	\$ -
22	DA18-052	108-807	IDEA Public Schools	3/13/2019	\$ (36,306.00)
23	DA18-038	129-901	Crandall ISD	3/13/2019	\$ (35,841.00)
24	DA18-036	170-908	New Caney ISD	3/13/2019	\$ (55,495.00)
25	DA18-051	177-902	Sweetwater ISD	3/13/2019	\$ (145.00)
26	DA18-011	227-907	Manor ISD	3/13/2019	\$ (22,587.00)
27	CR17-037	066-903	Freer ISD	3/14/2019	\$ -
28	DA18-050	014-801	Richard Milburn Alter High School	3/21/2019	\$ (7,162.00)
29	DA18-033	101-902	Aldine ISD	4/16/2019	\$ (11,704.00)
30	DA18-049	226-903	San Angelo ISD	4/18/2019	\$ (562.00)
31	CR17-040	231-901	McCamey ISD	4/24/2019	\$ -
32	DA18-029	093-904	Navasota ISD	4/29/2019	\$ (172,408.00)
33	CR17-039	055-901	Culberson County-Allamore ISD	4/30/2019	\$ -
34	DA18-043	108-912	La Joya ISD	4/30/2019	\$ (1,283.00)
35	DA18-031	152-901	Lubbock ISD	4/30/2019	\$ (28,814.00)
36	DA18-010	227-904	Pflugerville ISD	4/30/2019	\$ 5,026.00
37	DA18-047	094-902	Schertz-Cibolo-Universal City ISD	5/15/2019	\$ (3,156.00)
38	DA18-048	015-916	Judson ISD	5/30/2019	\$ (7,380.00)
39	DA18-034	057-912	Irving ISD	5/30/2019	\$ (6,514.00)
40	DA18-030	188-901	Amarillo ISD	5/30/2019	\$ (29,941.00)
41	DA18-006	240-903	United ISD	5/30/2019	\$ (1,996.00)
42	DA18-044	105-906	Hays CISD	6/6/2019	\$ (16,512.00)
43	DA18-032	199-901	Rockwall ISD	6/6/2019	\$ (18,982.00)
44	DA18-045	220-902	Birdville ISD	6/6/2019	\$ (11,064.00)

<b>Item No.</b>	<b>Review No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Final Mailed</b>	<b>Final Adjustment</b>
45	F17-005	161-914	Waco ISD	6/13/2019	\$ -
46	DA18-009	015-905	Edgewood ISD	6/20/2019	\$ (53,463.00)
47	F19-007	019-907	Texarkana ISD	7/29/2019	\$ -
48	CR17-036	198-905	Hearne ISD	7/30/2019	\$ -
49	F19-003	108-913	Weslaco ISD	8/7/2019	\$ -
50	DA18-041	043-905	Frisco ISD	8/15/2019	\$ (23,435.00)
51	DA18-023	057-837	Kipp Dallas-Fort Worth	8/15/2019	\$ (6,420.00)
52	DA18-020	170-902	Conroe ISD	8/15/2019	\$ (6,993.00)
53	CR19-012	019-911	Red Lick ISD	8/15/2019	\$ -
54	DA18-024	014-803	Priority Charter Schools	8/15/2019	\$ (210.00)
55	DA18-022	057-922	Coppell ISD	8/16/2019	\$ (3,957.00)
56	CR19-014	180-904	Wildorado ISD	8/19/2019	\$ -
57	CR19-010	019-910	Malta ISD	8/26/2019	\$ -
58	CR19-008	236-802	Sam Houston State University Charter School	8/30/2019	\$ -
<b>Total</b>		<b>58</b>	<b>Student Attendance Reviews Completed</b>		<b>\$ (693,293.00)</b>

<b>Item No.</b>	<b>Review No.</b>	<b>County District Number</b>	<b>District Name</b>
1	CR19-001	061-805	Trivium Academy
2	CR19-002	057-850	Pioneer Technology & Arts Academy
3	CR19-003	043-802	Lone Star Language Academy
4	CR19-004	126-801	Kauffman Leadership Academy
5	CR19-005	101-871	A+ Unlimited Potential
6	CR19-006	246-802	Goodwater Montessori School
7	CR19-007	015-838	Compass Rose Academy
8	CR19-008	236-802	Sam Houston State University Charter School
9	CR19-009	058-905	Klondike ISD
10	CR19-010	019-910	Malta ISD
11	CR19-011	165-802	Midland Academy Charter School
12	CR19-012	019-911	Red Lick ISD
13	CR19-013	138-904	Benjamin ISD
14	CR19-014	180-904	Wildorado ISD
15	CR19-015	071-809	Vista Del Futuro Charter School
16	CR19-016	234-905	Martin's Mill ISD
17	CR19-017	101-811	Excel Academy
18	CR19-018	071-804	El Paso Academy
19	CR19-019	022-903	San Vicente ISD
20	CR19-020	223-901	Brownfield ISD
21	CR19-021	102-902	Marshall ISD
22	CR19-022	007-906	Poteet ISD
23	CR19-023	248-901	Kermit ISD
24	CR19-024	015-825	Lighthouse Charter School
25	DA17-060	243-905	Wichita Falls ISD
26	DA18-001	101-912	Houston ISD
27	DA18-002	220-905	Fort Worth ISD
28	DA18-003	046-902	Comal ISD
29	DA18-004	101-919	Spring ISD
30	DA18-005	057-903	Carrollton-Farmers Branch ISD
31	DA18-007	212-905	Tyler ISD
32	DA18-008	043-910	Plano ISD
33	DA18-012	015-915	Northside ISD
34	DA18-013	071-909	Socorro ISD
35	DA18-014	057-909	Garland ISD
36	DA18-014	057-909	Garland ISD
37	DA18-015	015-907	San Antonio ISD
38	DA18-016	101-917	Pasadena ISD
39	DA18-017	220-907	Keller ISD
40	DA18-018	246-909	Round Rock ISD
41	DA18-019	108-904	Edinburg ISD
42	DA18-025	101-903	Alief ISD
43	DA18-026	227-901	Austin ISD
44	DA18-027	061-902	Lewisville ISD

<b>Item No.</b>	<b>Review No.</b>	<b>County District Number</b>	<b>District Name</b>
45	DA18-028	031-901	Brownsville ISD
46	DA18-035	184-903	Weatherford ISD
47	DA18-037	043-914	Wylie ISD
48	DA18-039	071-905	Ysleta ISD
49	DA18-040	101-907	Cypress-Fairbanks ISD
50	DA18-042	057-914	Mesquite ISD
51	F19-001	057-905	Dallas ISD
52	F19-002	100-907	Lumberton ISD
53	F19-004	068-901	Ector County ISD
54	F19-005	244-903	Vernon ISD
55	F19-006	015-910	North East ISD
56	F19-008	101-908	Deer Park ISD
<b>Total</b>		<b>56</b>	<b>Student Attendance Reviews -- In Progress</b>

<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	CC17-001	043-912	Prosper ISD	11/1/2018	\$ (305,227.00)
2	CC18-001	199-901	Rockwall ISD	6/14/2018	\$ -
3	SI17-002	167-902	Mullin ISD	5/10/2019	\$ (543,844.00)
<b>Total</b>		<b>3</b>	<b>Student Attendance Complaint Investigations Completed</b>		<b>\$ (849,071.00)</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>

<b>Item No.</b>	<b>Review No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Final Mailed</b>	<b>Final Adjustment</b>
1	CO19-001	057-849	Trinity Environmental Academy	7/26/2019	\$ -
<b>Total</b>		<b>1</b>	<b>Student Attendance Charter School Close Outs Completed</b>		<b>\$ -</b>

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Review Date</b>
1	025-908	Brooksmith ISD	3/14/2019
<b>Total</b>	<b>1</b>	<b>Fiscal Management Reviews Completed</b>	

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	243-906	City View ISD
<b>Total</b>	<b>1</b>	<b>Fiscal Management Reviews--<i>In Progress</i></b>

Item No.	County District Number	District Name	Review Date	Statutory Adjustment
1	137-904	Santa Gertrudis ISD	9/7/2018	\$ -
2	080-901	Mount Vernon ISD	10/10/2018	-
3	074-903	Bonham ISD	10/18/2018	-
4	068-901	Ector County ISD	11/16/2018	(38,284.00)
5	013-903	Pettus ISD	12/20/2018	-
6	188-901	Amarillo ISD	12/4/2018	-
7	083-903	Seminole ISD	4/11/2019	-
8	123-910	Beaumont ISD	4/18/2019	(146,029.86)
9	229-903	Woodville ISD	4/2/2019	-
10	220-914	Kennedale ISD	4/24/2019	-
11	017-901	Borden County ISD	6/25/2019	-
12	083-902	Loop ISD	7/27/2019	-
<b>Total</b>	<b>12</b>	<b>Superintendent's Severance Reviews Completed</b>		<b>\$ (184,313.86)</b>

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	249-904	Chico ISD
2	176-901	Burkeville ISD
3	214-901	Rio Grande City CISD
<b>Total</b>	<b>3</b>	<b>Superintendent's Severance Reviews -- In Progress</b>

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Review Date</b>
1	220-901	Arlington ISD	01/23/19
2	176-901	Burksville ISD	11/21/18
3	220-912	Crowley ISD	03/29/19
4	108-903	Edcouch-Elsa ISD	02/08/19
5	220-905	Fort Worth ISD	11/08/18
6	101-819	Marshall ISD	04/25/19
7	182-903	Mineral Wells ISD	03/29/19
8	093-905	Richards ISD	11/13/18
9	015-907	San Antonio ISD	05/29/19
10	227-901	Austin ISD	11/12/18
11	084-909	Sante Fe ISD	09/24/18
12	015-916	Judson ISD	04/18/19
13	158-906	Van Vleck ISD	08/16/19
14	124-901	Jim Hogg CISD	08/13/19
15	067-904	Gorman ISD	07/09/19
16	143-906	Ezzell ISD	06/05/19
17	152-908	Roosevelt ISD	05/13/19
18	246-908	Liberty Hill ISD	05/20/19
19	061-902	Lewisville ISD	07/09/19
20	220-914	Kennedale ISD	04/29/19
<b>Total</b>	<b>20</b>	<b>SHARS Audit Reviews (onsite/desk) -COMPLETED</b>	

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	183-902	Cartheage ISD
2	019-910	Malta ISD
3	020-901	Alvin ISD
4	110-905	Ropes ISD
5	172-902	Daingerfield-Lone Star ISD
<b>Total</b>	<b>5</b>	<b>SHARS Audit Reviews (onsite/desk) -In Progress</b>

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>	<b>Review Date</b>
1	108-807	IDEA Public Schools	12/21/18
2	246-913	Leander ISD	01/29/19
3	187-907	Livingston ISD	12/19/18
4	233-901	San Felipe-Del Rio CISD	12/07/18
<b>Total</b>	<b>4</b>	<b>SHARS Complaints -COMPLETED</b>	

<b>Item No.</b>	<b>County District Number</b>	<b>District Name</b>
1	079-901	Lamar ISD
2	152-906	Lubbock-Cooper ISD
3	189-902	Progreso ISD
<b>Total</b>	<b>3</b>	<b>SHARS Complaints -In Progress</b>