

February 2, 2018

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 2017 fiscal year, ended August 31, 2017.

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 2017 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 into fiscal year 2017 to review procedures and training material for special allotment funds to ensure compliance and accountability for these supplemental funds. 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. In fiscal year 2017 TEA selected five school districts and one charter school out of dozens of districts and charters that volunteered to be a part of a pilot program to help develop the review program for the special allotment compliance project. The division continued the undertaking of a complete rewrite of the Financial Accountability System Resource Guide (FASRG).

Other reviews included district depository contracts, work papers 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 complete rewrite of the audit program for work paper reviews of CPA began in fiscal year 2017 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 2017, 12 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 2016 with certain exceptions. These exceptions were attributable to changes in division leadership, several vacancies in division positions, and subsequently lost positions. A significant affect for the division was loss of three full time positions which became permanent after the hiring freeze in January 2017. The following activities remained a priority of the division: student attendance compliance reviews and investigations, review of annual financial and compliance reports, issuing financial accountability ratings, 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 2017 fiscal year by type; additional detail and listing of other work performed is provided in the attachment.

Activity	Status
Student Attendance	
--Reviews	24 <i>Completed</i> 77 <i>in progress</i>
--Correspondence Investigations	1 <i>Completed</i> 1 <i>in progress</i>
--Charter School Closeout Reviews	9 <i>Completed</i> 3 <i>in progress</i>
Annual Financial and Compliance Report Reviews	727 <i>Completed</i>
CPA Work Paper Reviews	4 <i>Completed</i> 5 <i>in progress</i>
Depository Contracts	1208 <i>Completed</i>
Superintendent Severance Payments	7 <i>Completed</i> 20 <i>in progress</i>
TEA Mailbox Questions/Research/Answer	
--Financial Accountability	220+ <i>Completed</i>
--Student Attendance Accounting	300+ <i>Completed</i>
--School Audits	230+ <i>Completed</i>
Fiscal Management Reviews	4 <i>Completed</i> 1 <i>in progress</i>
85th Legislature Bill Analysis	80+ <i>Completed</i>
School First Ratings Issued	1089 <i>Completed</i>

The division completed 24 reviews of student attendance data, which included desk and compliance reviews. These reviews resulted in monetary reclaims of \$651,252 related to the errors discovered. In addition, a correspondence investigation of student attendance data was also completed with a total reclaim of \$59,409.

Closeout reviews were done for four charter schools in their final year of operation, which resulted in reclaimed funds totaling \$2,212,079.

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 2017 fiscal year, the division reviewed and issued letters or reports on 727 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 2017 the division completed four reviews and started another.

The division completed desk reviews of superintendent severance-payment disclosures submitted by school districts resulting in no statutory reductions in FSP funding. Severance payments were in compliance with the statutory required amounts.

The division performed work paper reviews of five certified public accountants (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 adheres to its quality control criteria.

In accordance with the TEC, §45.208, related to school depository contracts, the division reviewed approximately 1,208 school district depository contract files; this included two surety bonds, 531 extensions and 16 statements.

Fiscal year 2017 was also a legislative year which required this division to analyze financial impact of proposed bills. During the 85th Legislative Session over 80 bills were analyzed by the division.

A major undertaking for the division which began in fiscal year 2016 and continued through 2017 is to completely re-write 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 2018.

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 and to charter school and district officials and other individuals by phone and correspondence and proposing changes to the Financial Integrity Rating System of Texas (FIRST). Staff members researched and responded to over 600 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 2017 fiscal year. As of the fiscal year ended August 31, 2017 the adjustments resulting from attendance reviews and correspondence investigations, reviews of charter closeouts, on-site special accreditation investigations and fiscal management reviews resulted in net monetary reclaims of \$2,922,740 to the agency.

Respectfully submitted,

David Marx
Director, Financial Compliance Division

Attachment

Division of Financial Compliance
Fiscal Year 2017 Activity Report
As of August 31, 2017

SCHEDULE OF STUDENT ATTENDANCE REVIEWS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	DA16-041	057-814	Academy For Academic Excellence	6/7/2017	\$ -
2	DA13-062	101-902	Aldine ISD	1/30/2015	\$ -
3	DA16-012	020-901	Alvin ISD	5/17/2017	\$ (308)
4	DA13-051	020-901	Alvin ISD	1/30/2015	\$ -
5	DA15-021	188-901	Amarillo ISD	12/14/2016	\$ (119,373)
6	CR14-017	227-801	American Youthworks Charter School	8/31/2017	\$ -
7	DA16-024	130-901	Boerne ISD	5/2/2017	\$ (40,015)
8	DA16-004	084-910	Clear Creek ISD	9/20/2016	\$ (20,456)
9	DA16-014	112-908	Como-Pickton CISD	4/27/2017	\$ (43,205)
10	DA13-038	057-905	Dallas ISD	5/17/2017	\$ (296,792)
11	DA16-002	057-905	Dallas ISD	12/14/2016	\$ (13,632)
12	DA16-003	068-901	Ector County ISD	9/20/2016	\$ (6,924)
13	DA16-015	220-904	Everman ISD	4/27/2017	\$ (14,037)
14	DA16-027	057-909	Garland ISD	12/14/2016	\$ (951)
15	DA16-051	101-858	Harmony School Of Excellence	6/5/2017	\$ -
16	DA15-033	108-912	La Joya ISD	9/20/2016	\$ (60)
17	DA16-022	100-907	Lumberton ISD	5/11/2017	\$ (31,281)
18	DA13-048	015-910	North East ISD	5/17/2017	\$ 2,912
19	DA16-013	084-909	Santa Fe ISD	5/2/2017	\$ (10)
20	DA16-047	101-838	Southwest School	6/5/2017	\$ -
21	DA16-009	244-903	Vernon ISD	4/27/2017	\$ (4,367)
22	DA15-022	235-902	Victoria ISD	4/27/2017	\$ (58,492)
23	DA13-036	196-902	Woodsboro ISD	12/19/2014	\$ -
24	DA16-028	071-905	Ysleta ISD	9/20/2016	\$ (4,261)
Total of 24 Student Attendance Reviews Completed for 2016-2017					\$ (651,252)

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SCHEDULE OF STUDENT ATTENDANCE REVIEWS - In Progress							
Item No.	Review No.	County District Number	District Name	(continued) Item No.	Review No.	County District Number	District Name
1	CR17-001	015-834	Basis Texas	40	CR17-040	231-901	McCamey ISD
2	CR17-002	178-915	West Oso ISD	41	F17-001	241-903	El Campo ISD
3	CR17-003	015-836	Eleanor Kolitz Hebrew Language Academy	42	F17-002	057-910	Grand Prairie ISD
4	CR17-004	015-835	Great Hearts Texas	43	F17-003	181-906	West Orange-Cove CISD
5	CR17-005	057-848	International Leadership of Texas	44	F17-004	001-907	Palestine ISD
6	CR17-006	101-868	The Pro-Vision Academy	45	F17-005	161-914	Waco ISD
7	CR17-007	057-847	Village Tech Schools	46	F17-006	001-908	Westwood ISD
8	CR17-008	015-837	Carpe Diem Schools	47	F17-007	084-908	Hitchcock ISD
9	CR17-009	071-810	El Paso Leadership Academy	48	F17-008	015-911	East Central ISD
10	CR17-010	227-826	Montessori For All	49	F17-009	034-905	Linden-Kildare CISD
11	CR17-011	101-870	Beta Academy	50	F17-010	196-902	Woodsboro ISD
12	CR17-012	220-819	High Point Academy	51	DA16-042	057-816	A W Brown-Fellowship Leadership Academy
13	CR17-013	105-803	Ki Charter Academy	52	DA16-043	057-832	Alpha Charter School
14	CR17-014	227-828	The Excel Center	53	DA16-037	015-834	Basis Texas
15	CR17-015	057-849	Trinity Environmental Academy	54	DA16-049	101-847	Beatrice Mayes Institute Charter School
16	CR17-016	236-801	Raven School	55	DA16-057	193-801	Big Springs Charter School
17	CR17-017	001-902	Cayuga ISD	56	DA16-039	057-811	Children First Academy Of Dallas
18	CR17-018	101-855	Meyerpark Elementary	57	DA15-025	126-903	Cleburne ISD
19	CR17-019	232-901	Knippa ISD	58	DA16-046	092-801	East Texas Charter Schools
20	CR17-020	085-903	Southland ISD	59	DA16-045	071-806	Harmony Science Acad (El Paso)
21	CR17-021	108-914	La Villa ISD	60	DA16-055	161-807	Harmony Science Acad (Waco)
22	CR17-022	061-804	Leadership Prep School	61	DA16-048	101-846	Harmony Science Academy
23	CR17-023	246-801	Meridian World School LLC	62	DA16-058	227-816	Harmony Science Academy (Austin)
24	CR17-024	022-902	Marathon ISD	63	DA16-053	108-802	Horizon Montessori Public Schools
25	CR17-025	044-902	Wellington ISD	64	DA16-054	108-807	Idea Public Schools
26	CR17-026	110-901	Anton ISD	65	DA16-038	043-801	Imagine International Academy Of North Texas
27	CR17-027	133-902	Hunt ISD	66	DA16-044	057-848	International Leadership Of Texas (Illt)
28	CR17-028	161-908	Mart ISD	67	DA16-032	246-913	Leander ISD
29	CR17-029	169-906	Gold Burg ISD	68	DA16-035	014-804	Orenda Charter School
30	CR17-030	235-901	Bloomington ISD	69	DA16-056	183-801	Panola Charter School
31	CR17-031	125-902	Ben Bolt-Palito Blanco ISD	70	DA16-034	014-803	Priority Charter Schools
32	CR17-032	168-902	Lorraine ISD	71	DA16-050	101-853	Promise Community School
33	CR17-033	018-903	Morgan ISD	72	DA16-036	015-815	Radiance Academy Of Learning
34	CR17-034	248-902	Wink-Loving ISD	73	DA16-059	234-801	Ranch Academy
35	CR17-035	206-902	Richland Springs ISD	74	DA16-033	014-801	Richard Milburn Alter HS (Killeen)
36	CR17-036	198-905	Hearne ISD	75	AR15-001	227-805	Texas Empowerment Academy
37	CR17-037	066-903	Freer ISD	76	DA16-052	105-802	Texas Preparatory School
38	CR17-038	156-902	Stanton ISD	77	DA16-040	057-813	Trinity Basin Preparatory
39	CR17-039	055-901	Culberson County-Allamoore ISD				
Total of 77 Student Attendance Reviews still in Progress as of 08.31.2017							

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SCHEDULE OF STUDENT ATTENDANCE CORRESPONDENCE INVESTIGATIONS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CC14-003	101-912	Houston ISD	4/28/2017	(59,409)
Total of 1 Student Attendance Correspondence Investigations Completed for 2016-2017					\$ (59,409)

SCHEDULE OF STUDENT ATTENDANCE CORRESPONDENCE INVESTIGATIONS - In Progress					
Item No.	Review No.	County District Number	District Name		
1	CC17-001	043-912	Prosper ISD		
Total of 1 Student Attendance Correspondence Investigations still In Progress as of 08.31.2017					

SCHEDULE OF STUDENT ATTENDANCE CHARTER SCHOOL REVIEWS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CO17-001	116-801	Phoenix Charter School	5/16/2017	\$ (1,548,100)
2	CO17-002	084-801	Mainland Preparatory Academy	5/16/2017	\$ (53,140)
3	CO17-003	243-801	Bright Ideas Charter	6/16/2017	\$ (14,173)
4	CO17-004	101-805	Girls & Boys Preparatory Academy	6/16/2017	\$ (346,227)
5	CO17-005	015-832	City Center Health Careers	6/16/2017	\$ (3,758)
6	CO17-006	101-833	La Amistad Love & Learning Academy	6/5/2017	\$ (76,401)
7	CO17-007	014-802	Transformative Charter Academy	6/5/2017	\$ (61,464)
8	CO17-009	101-801	Medical Center Charter School	8/29/2017	\$ (784)
9	CO17-010	101-848	Northwest Preparatory	8/29/2017	\$ (108,032)
Total of 9 Student Attendance Charter School Reviews Completed for 2016-2017					\$ (2,212,079)

SCHEDULE OF STUDENT ATTENDANCE CORRESPONDENCE INVESTIGATIONS - In Progress					
Item No.	Review No.	County District Number	District Name		
1	CO17-008	015-803	Higgs Carter King Gifted & Talented Charter Academy		
2	CO17-011	101-867	Fallbrook College Preparatory Academy		
3	CO17-012	015-823	San Antonio Technology Academy		
Total of 3 Student Attendance Correspondence Investigations still In Progress as of 08.31.2017					

SCHEDULE OF SUPERINTENDENT SEVERANCE REVIEWS - COMPLETED					
Item No.		County District Number	District Name	Review Date	Statutory Adjustment
1		121-904	Jasper ISD	5/4/2017	\$ -
2		123-914	Hamshire-Fannett ISD	5/4/2017	-
3		049-907	Lindsay ISD	5/4/2017	-
4		021-902	Bryan ISD	5/4/2017	-
5		249-904	Chico ISD	11/7/2016	-
6		227-907	Manor ISD	5/19/2017	-
7		174-904	Nacogdoches	12/28/2016	-
Total of 7 Superintendent Severance Payment Reviews Completed for 2016-2017					\$ -

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SCHEDULE OF SUPERINTENDENT SEVERANCE REVIEWS - <i>In Progress</i>		
Item No.	County District Number	District Name
1	057-909	Garland ISD
2	178-915	West Oso ISD
3	116-905	Greenville ISD
4	227-904	Pflugerville ISD
5	016-901	Johnson City ISD
6	094-901	Sequin ISD
7	154-903	North Zulch ISD
8	025-908	Brookesmith ISD
9	134-901	Junction ISD
10	018-908	Cransfills Gap ISD
11	063-903	Spur ISD
12	220-912	Crowley ISD
13	057-000	Dallas County Schools
14	069-901	Rocksprings ISD
15	235-901	Bloomington ISD
16	105-906	Hay Consolidated ISD
17	148-903	Higgins ISD
18	140-905	Olton ISD
19	180-901	Boys Ranch ISD
20	234-904	Grand Saline ISD
Total of 20 Superintendent Severance Reviews still In Progress as of 08.31.2017		

SCHEDULE OF FISCAL MANAGEMENT REVIEWS - COMPLETED			
Item No.	County District Number	District Name	Review Date
1	101-815	Alief Montessorri Community Sc	6/21/2017
2	245-901	Lasara ISD	11/30/2016
3	214-902	San Isidro ISD	11/30/2016
4	101-840	Two Dimensions Preparatory Ac	6/20/2017
Total of 4 Fiscal Management Review Completed for 2016-2017			

SCHEDULE OF FISCAL MANAGEMENT REVIEWS - <i>In Progress</i>		
Item No.	County District Number	District Name
1	125-902	Ben Bolt-Palito Blanco ISD
Total of 1 Fiscal Management Review still In Progress as of 08.31.2017		

Division of Financial Compliance
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SUMMARY OF OTHER ACTIVITIES COMPLETED IN FISCAL YEAR 2017		
Item No.	Count	Activities
1	1208	Depository Contracts and/or Extensions Reviews
2	1	Financial Exigency Reviewed
3	13	Fiscal Year Changes
4	4	New Charter School First Year Visits
5	12	New Charters Schools Applications Reviewed
6	727	Review of Annual Financial and Compliance Reports
7	729+	Responses to TEA's Q&A email boxes
8	1089	School First Ratings for FYE 2015
9	80+	Bill Analysis for 85th Legislature Session
10	multiple	Trainings throughout Texas covering FASRG, Student Attendance Accounting, Special All
Summary of Other Activities Completed in Fiscal Year 2016-2017		
SUMMARY OF OTHER ACTIVITES IN FISCAL YEAR 2017 - <i>In Progress</i>		
Item No.	Activities	
1	Continued Rewrite and Consolidation of FASRG	
2	Rewrite of Audit Program for CPA Work Papers	
3	Material for Special Allotment Monitoring and Review	
Summary of Other Activities still In Progress as of 08.31.2017		