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January 29, 2017

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 the progress of each fiscal year's audit plan to the State Board of Education at least annually. In accordance with that section, the following describes the status of audit reports and related activities for the agency's 2016 fiscal year, ended August 31, 2016.

Organization and Personnel

The Division of Financial Compliance, which reports to chief school finance officer Leo Lopez, continues to administer duties related to student attendance reviews, annual financial and compliance report reviews, and as-needed special accreditation investigations. A separate division handles duties related to federal grant reviews and federal accountability.

In fiscal year 2016, the division's focus was to include the review of student attendance data, to oversee the student attendance accounting handbook and reviews of annual financial and compliance reports, and to issue financial accountability ratings. In addition, the division began to develop 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. The division also began undertaking a complete rewrite of the Financial Accountability System Resource Guide (FASRG).

The division also reviewed district's depository contracts, work papers of certified public accountants (CPAs) who audit districts and charter schools, superintendent severance payments, financial exigency, and the processing of district's fiscal year changes. The division selects districts and open-enrollment charter schools that were identified as high risk on a risk assessment for a review; the review consists of examining business office procedures, internal controls for FASRG compliance, generally accepted accounting principles, and best practices. The reviews are followed up with recommendations and a request for a course of action from the district or charter school. In fiscal year 2016, there were 24

applications under review for charters to operate a charter school and the division made six on-site visits to first year operating 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, vacancies in division positions, and several investigations that took an extended period of time to complete. Student attendance compliance reviews and investigations; annual financial and compliance reports reviews; issuing financial accountability ratings; and providing training, updated guidance documents, and answering customer questions on a daily basis remained a priority of this division.

The following table shows the summary of the review activities of the division for the 2016 fiscal year by type; the attached document provides additional detail and listing of other work performed.

Activity	Status
Student Attendance	
--Reviews	31 <i>Completed</i> 51 <i>in progress</i>
--Correspondence Investigations	2 <i>Completed</i> 1 <i>in progress</i>
--Charter School Closeout Reviews	4 <i>Completed</i>
Annual Financial and Compliance Report Reviews	1227 <i>Completed</i>
CPA Work Paper Reviews	4 <i>Completed</i> 4 <i>in progress</i>
Depository Contracts	263 <i>Completed</i>
Superintendent Severance Payments	24 <i>Completed</i> 5 <i>in progress</i>
TEA Mailbox Questions/Research/Answer	
--Financial Accountability	430+ <i>Completed</i>
--Student Attendance Accounting	300+ <i>Completed</i>
--School Audits	350+ <i>Completed</i>
Fiscal Management Reviews	6 <i>Completed</i> 4 <i>in progress</i>
Special Accreditation Investigation	1 <i>Completed</i>
School First Ratings Issued	1197 <i>Completed</i>

The division completed 31 student attendance data reviews, which included desk and compliance reviews. These reviews resulted in monetary reclaims of \$718,035 related to the errors discovered. In addition, two correspondence investigations of student attendance data were also completed with a total reclaim of \$57,783.

Closeout reviews were done in the final year of operations for four closing charter schools that resulted in a reclaim of \$2,275,974.

The Texas Education Code (TEC), §44.008(e), requires division staff members to review every public school annual financial and compliance report that has 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 2016 fiscal year, the division reviewed and issued letters or reports on 1,227 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 and special education, career and technology, state compensatory, bilingual, gifted and talented, and high school education. The review and monitoring program is expected to begin in the summer.

The division performs fiscal management reviews of school districts and charter schools that are identified as high risk because of issues in their annual financial and compliance report ranging from multiple years of the same findings to a sudden decrease in the entity's fund balance or net position. In fiscal year 2016, the division completed six reviews and started another four.

The division completed desk reviews of superintendent severance-payment disclosures submitted by school districts, resulting in a statutory reduction in FSP funding in the amount of \$703,480.

The division performed work paper reviews of eight CPAs, 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, 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, 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 2016, the division began the project to develop a method to check the status of the CPA firms from those who conduct the annual financial statement audits.

In accordance with the TEC, §45.208, related to school depository contracts, the division reviewed approximately 263 school district depository contract files. Of the 263 files reviewed, 48 were notices of contract extensions and 27 were depository contracts. The division also reviewed 188 charter school depository contract filings. Of the 188 contracts reviewed, 158 were charter school statements of no change and 30 were new depository contracts.

A major undertaking for the division began during the fiscal year to completely re-write and consolidate the current 10 modules of the FASRG which is adopted by 19 TAC §109.41. The division has tentative plans to publish the updated streamlined modules in fiscal year 2017.

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. Changes to the Financial Integrity Rating System of Texas (FIRST). Staff members researched and responded to over a thousand 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 2016 fiscal year. As of the fiscal year ended August 31, 2016, 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 \$3,755,272 to the agency.

Respectfully submitted,

David Marx
Division Head for Financial Compliance

Attachment

Division of Financial Compliance
Fiscal Year 2016 Activity Report
as of August 31, 2016

SCHEDULE OF STUDENT ATTENDANCE REVIEWS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	DA15-029	220-901	Arlington ISD	11/9/2015	\$ 9,007
2	DA15-028	227-901	Austin ISD	10/26/2015	(48,173)
3	DA16-011	013-901	Beeville ISD	7/15/2016	-
4	DA15-018	014-903	Belton ISD	3/1/2016	1,993
5	DA16-030	145-901	Buffalo ISD	3/30/2016	-
6	DA16-029	101-908	Deer Park ISD	7/15/2016	4,393
7	DA15-016	015-911	East Central ISD	11/13/2015	(12,217)
8	DA15-026	108-904	Edinburg Consolidated ISD	10/22/2015	1,565
9	DA16-008	247-901	Floresville ISD	7/15/2016	415
10	DA16-031	152-907	Frenship ISD	3/30/2016	-
11	DA15-008	101-911	Goose Creek CISD	3/1/2016	27,702
12	DA15-024	057-910	Grand Prairie ISD	10/22/2015	131,345
13	DA15-001	101-912	Houston ISD	10/22/2015	273,704
14	DA15-014	101-913	Humble ISD	11/13/2015	18,740
15	DA15-006	057-912	Irving ISD	10/22/2015	39,232
16	DA15-023	101-914	Katy ISD	11/9/2015	19,707
17	DA15-007	079-901	Lamar CISD	3/1/2016	7,814
18	DA15-030	187-907	Livingston ISD	10/22/2015	8,907
19	DA15-017	100-907	Lumberton ISD	11/13/2015	29,294
20	DA16-006	163-908	Medina Valley ISD	7/15/2016	8,385
21	DA15-019	015-910	North East ISD	3/30/2016	44,803
22	DA16-001	020-908	Pearland ISD	7/15/2016	-
23	DA15-002	108-909	Pharr-San Juan-Alamo ISD	10/22/2015	5,187
24	DA15-020	246-909	Round Rock ISD	10/22/2015	59,267
25	DA16-026	031-912	San Benito CISD	3/1/2016	-
26	DA15-027	071-909	Socorro ISD	10/22/2015	47,877
27	DA16-025	019-907	Texarkana ISD	7/15/2016	415
28	DA15-015	212-905	Tyler ISD	11/13/2015	13,095
29	DA15-013	244-903	Vernon ISD	11/13/2015	7,884
30	DA16-007	240-904	Webb CISD	7/15/2016	-
31	DA15-004	108-913	Weslaco ISD	10/22/2015	17,694
Total of 31 Student Attendance Reviews Completed for 2015-2016					\$ 718,035

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SCHEDULE OF STUDENT ATTENDANCE REVIEWS - In Progress							
Item No.	Review No.	County District Number	District Name	(continued)	Review No.	County District Number	District Name
				Item No.			
1	DA16-042	057-816	A W Brown-Fellowship Leadership Acad	27	DA16-058	227-816	Harmony Science Academy (Austin)
2	DA16-041	057-814	Academy For Academic Excellence	28	DA16-053	108-802	Horizon Montessori Public Schools
3	DA13-062	101-902	Aldine ISD	29	DA16-054	108-807	Idea Public Schools
4	DA16-043	057-832	Alpha Charter School	30	DA16-038	043-801	Imagine Interntl Acad Of North Texas
5	DA16-012	020-901	Alvin ISD	31	DA16-044	057-848	International Leadership Of Texas (Ilt)
6	DA13-051	020-901	Alvin ISD	32	DA15-033	108-912	La Joya ISD
7	DA15-021	188-901	Amarillo ISD	33	DA16-032	246-913	Leander ISD
8	CR14-017	227-801	American Youthworks Charter School	34	DA16-022	100-907	Lumberton ISD
9	DA16-037	015-834	Basis Texas	35	DA13-048	015-910	North East ISD
10	DA16-049	101-847	Beatrice Mayes Institute Charter School	36	DA16-035	014-804	Orenda Charter School
11	DA16-057	193-801	Big Springs Charter School	37	DA16-056	183-801	Panola Charter School
12	DA16-024	130-901	Boerne ISD	38	DA16-034	014-803	Priority Charter Schools
13	DA16-039	057-811	Children First Academy Of Dallas	39	DA16-050	101-853	Promise Community School
14	DA16-004	084-910	Clear Creek ISD	40	DA16-036	015-815	Radiance Academy Of Learning
15	DA15-025	126-903	Cleburne ISD	41	DA16-059	234-801	Ranch Academy
16	DA16-014	112-908	Como-Pickton CISD	42	DA16-033	014-801	Richard Milburn Alter HS (Killeen)
17	DA13-038	057-905	Dallas ISD	43	DA16-013	084-909	Santa Fe ISD
18	DA16-002	057-905	Dallas ISD	44	DA16-047	101-838	Southwest School
19	DA16-046	092-801	East Texas Charter Schools	45	AR15-001	227-805	Texas Empowerment Academy
20	DA16-003	068-901	Ector County ISD	46	DA16-052	105-802	Texas Preparatory School
21	DA16-015	220-904	Everman ISD	47	DA16-040	057-813	Trinity Basin Preparatory
22	DA16-027	057-909	Garland ISD	48	DA16-009	244-903	Vernon ISD
23	DA16-051	101-858	Harmony School Of Excellence	49	DA15-022	235-902	Victoria ISD
24	DA16-045	071-806	Harmony Science Acad (El Paso)	50	DA13-036	196-902	Woodsboro ISD
25	DA16-055	161-807	Harmony Science Acad (Waco)	51	DA16-028	071-905	Ysleta ISD
26	DA16-048	101-846	Harmony Science Academy				
Total of 51 Student Attendance Reviews still in Progress as of 08.31.2016							

SCHEDULE OF STUDENT ATTENDANCE CORRSPONDENCE INVESTIGATIONS - In Progress			
Item No.	Review No.	County District Number	District Name
1	CC14-003	101-912	Houston ISD
Total of 1 Student Attendance Correspondence Investigations still In Progress as of 08.31.2016			

SCHEDULE OF STUDENT ATTENDANCE CHARTER SCHOOL REVIEWS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CO16-004	101-809	Bay Area Charter Inc.	8/30/2016	\$ 90,076
2	CO16-002	057-815	Faith Family Academy of Oak Cliff	8/24/2016	51,397
3	CO16-001	108-801	Ignite Public Schools and Community Service Center	3/16/2016	1,209,401
4	CO16-003	220-818	Prime Prep Academy	8/30/2016	925,100
Total of 4 Student Attendance Charter School Reviews Completed for 2015-2016					\$ 2,275,974

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SCHEDULE OF STUDENT ATTENDANCE CORRSPONDENCE INVESTIGATIONS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Final Mailed	Final Adjustment
1	CC15-002	220-905	Fort Worth ISD	2/22/2016	\$ 842
2	CC15-004	057-804	Texas Can Academies	2/22/2016	56,941
Total of 2 Student Attendance Correspondence Investigations Completed for 2015-2016					\$ 57,783

SCHEDULE OF SUPERINTENDENT SEVERANCE REVIEWS - COMPLETED					
Item No.	Review No.	County District Number	District Name	Review Date	Statutory Adjustment
1	CC15-002	221-901	Abilene ISD	2/1/2016	\$ 131,643
2	CC15-004	217-901	Aspermont ISD	3/4/2016	-
3	CC15-004	025-902	Brownwood ISD	5/16/2016	127,135
4	CC15-004	073-901	Chilton ISD	8/2/2016	-
5	CC15-004	043-918	Community ISD	11/10/2015	-
6	CC15-004	057-905	Dallas ISD	11/10/2015	-
7	CC15-004	015-905	Edgewood ISD	2/1/2016	151,684
8	CC15-004	241-903	El Campo ISD	10/16/2015	-
9	CC15-004	242-906	Fort Elliott CISD	11/10/2015	-
10	CC15-004	220-905	Fort Worth ISD	5/16/2016	290,883
11	CC15-004	168-902	Loraine ISD	2/29/2016	-
12	CC15-004	161-910	Moody ISD	7/28/2016	-
13	CC15-004	080-901	Mount Vernon ISD	3/4/2016	-
14	CC15-004	167-902	Mullin ISD	8/9/2016	-
15	CC15-004	163-903	Natalia ISD	7/28/2016	-
16	CC15-004	094-901	Seguin ISD	2/29/2016	-
17	CC15-004	015-917	Southside ISD	11/12/2015	-
18	CC15-004	229-905	Spurger ISD	11/12/2015	-
19	CC15-004	166-905	Thorndale ISD	5/16/2016	-
20	CC15-004	240-904	Webb CISD	6/21/2016	-
21	CC15-004	234-907	Wills Point ISD	2/1/2016	2,136
22	CC15-004	062-904	Yorktown ISD	3/15/2016	-
23	CC15-004	253-901	Zapata ISD	3/2/2016	-
24	CC15-004	003-906	Zavalla ISD	7/26/2016	-
Total of 24 Superintendent Severance Payment Reviews Completed for 2015-2016					\$ 703,480

SCHEDULE OF SUPERINTENDENT SEVERANCE REVIEWS - In Progress		
Item No.	County District Number	District Name
1	180-901	Boys Ranch ISD
2	249-904	Chico ISD
3	234-904	Grand Saline ISD
4	227-907	Manor ISD
5	174-904	Nacogdoches ISD
Total of 5 Superintendent Severance Reviews still In Progress as of 08.31.2016		

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SCHEDULE OF FISCAL MANAGEMENT REVIEWS - COMPLETED			
Item No.	County District Number	District Name	Review Date
1	195-902	Balmorehea ISD	8/26/2016
2	178-902	Bishop CISD	2/10/2016
3	082-903	Pearsall ISD	4/23/2016
4	189-902	Presidio ISD	4/16/2016
5	115-902	Sierra Blanca ISD	10/21/2015
6	222-901	Terrell County ISD	7/12/2016
Total of 6 Fiscal Management Review Completed for 2015-2016			

SCHEDULE OF FISCAL MANAGEMENT REVIEWS - <i>In Progress</i>			
Item No.	County District Number	District Name	
1	101-815	Alief Montessorri Community School	
2	245-901	Lasara ISD	
3	214-902	San Isidro ISD	
4	101-840	Two Dimensions Preparatory Academy	
Total of 4 Fiscal Management Review still In Progress as of 08.31.2016			

SCHEDULE OF SPECIAL ACCREDITATION REVIEW - COMPLETED			
Item No.	County District Number	District Name	Review Date
1	015-908	South San Antonio ISD	11/6/2015
Total of 1 Special Accreditation Review Completed for 2015-2016			

SUMMARY OF OTHER ACTIVITIES COMPLETED IN FISCAL YEAR 2016			
Item No.	Count	Activities	
1	263	Depository Contracts and/or Extensions Reviews	
2	2	Financial Exigency Reviewed	
3	7	Fiscal Year Changes	
4	6	New Charter School First Year Visits	
5	4	New Charters Schools Applications Reviewed	
6	1227	Review of Annual Financial and Compliance Reports	
7	1000+	Responses to TEA's Q&A email boxes	
8	1197	School First Ratings for FYE 2015	
9	multiple	Trainings throughout Texas covering FASRG, Student Attendance Accounting, Special Allotment, etc.	
Summary of Other Activities Completed in Fiscal Year 2015-2016			

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SUMMARY OF OTHER ACTIVITES BEGAN IN FISCAL YEAR 2016 - <i>In Progress</i>	
Item No.	Activities
1	Major Rewrite and Consolidation of FASRG
2	Rewrite and Update of Student Attendance Accounting Handbook
3	Training Material for Special Allotment Monitoring and Review
Summary of Other Activities still In Progress as of 08.31.2016	