ATTACHMENT I

Review of Annual Audit Plan
Of the Division of Financial Audits
for 2011-2012

In accordance with 19 TAC §109.21, the commissioner of education shall submit the Division of Financial Audit's annual audit plan for review by the board committee with jurisdiction over audit issues. The proposed plan is illustrated on the graph contained at the end of this document.

The audit plan is recommended for fiscal year 2011-2012. Time shown on the attachment for audits, investigations, or reviews reflects the time to be spent by auditors in actually examining the records and/or making on-site observations at local educational entities. The primary purpose of the plan is to present the number and types of programs, areas or documents to be examined, and the time of the year in which examinations are scheduled to be accomplished.

The director of financial audits reports to the associate commissioner for accreditation and has unrestricted access to report directly to the commissioner of education and the appropriate committee of the board. The plan provides for the following three broad areas.

1. Compliance and Operations Audits

   (a) Student attendance accounting systems of selected school districts and charter schools will be audited. These systems control attendance data and are used as the basis to allocate most of the funds for the Foundation School Program. In addition, computer-aided desk audits of the Public Education Information Management System (PEIMS) attendance data will also be conducted to detect probable errors in reported data. These audits will be based on a risk assessment developed by the division to select the districts with a high error rate, and a few audits will be determined by random selection. These audits will require about 40% of the division's total time.

   (b) Preliminary audit findings of attendance will be reported to auditees, and replies or responses of auditees will be incorporated into final reports. Findings not resolved with issuance of an audit report will be referred for resolution to the associate commissioner for accreditation. Final adjustments disclosed in final audit reports will be made by the state funding division.

   (c) Auditors will perform compliance audits, reviews, surveys and other monitoring activities of the federal and state discretionary grants and federal formula grants awarded to independent school districts, open-enrollment charter schools, regional education service centers and other grantees to ascertain compliance with federal and state laws, rules and other grant requirements. Additionally, auditors will perform reviews of school district and charter school compliance with federal maintenance of effort requirements applicable to programs funded under the No Child Left Behind Act of 2001 and the Individuals with Disabilities Education Improvement Act of 2004. Amounts questioned in final audit reports and adjustments identified in final letters of finding will be reported to the associate commissioner for planning, grants, and evaluations for consideration of administrative and enforcement actions.

Similarly, material violations of contracts for charter disclosed in final audit reports will be reported to the associate commissioner for accreditation for consideration of a sanction.

(d) Auditors will perform compliance audits and reviews of the American Recovery and Reinvestment Act of 2009 (ARRA) stimulus funds awarded to independent school districts, open-enrollment charter schools, and regional education service centers to ascertain compliance with federal laws, rules and other grant requirements. Amounts questioned in final audit reports and adjustments identified in final letters of finding will be reported to the associate commissioner for planning, grants, and evaluations for consideration of administrative and enforcement actions.

2. Special Audits, Reviews and Investigations

(a) Review will be made of the work papers of independent auditors engaged by school districts, charter schools and regional education service centers to verify that independent auditors complied with generally accepted governmental auditing standards. The review will target new independent auditors who have not participated in a peer review under the requirements of Government Auditing Standards, as amended, and/or independent auditors associated with substandard audit reports. Independent auditors performing substandard work will be reported to the Texas State Board of Public Accountancy.

(b) Special and criminal investigations will be performed as complaints are registered by citizens, school and other governmental officials, and on the basis of auditors' findings. Violations of law will be reported to the appropriate local district attorney and the Texas Attorney General, and, in the case of misuse of federal grants, to the appropriate United States regional office of inspector general and to the Federal Bureau of Investigation.

(c) Transportation audits will be performed on selected school districts and charter schools. The Texas Education Code (TEC) authorizes each school district to establish and operate an economical public school transportation system and provides for the allotment of state Foundation School Program (FSP) funds for eligible student transportation services. The audits are to determine whether districts fulfilled reporting and record keeping requirements necessary for administering the allotment of FSP funds. Adjustments disclosed in final audit reports will be made by the state funding division.

(d) Auditors will perform follow-up audits on selected entities that had major findings or adjustments in funding resulting from a transportation audit. In addition, a selection of school districts and charter schools will have a follow-up audit performed based on material findings in their financial audit report. The purpose will be to ascertain if the entity in question has successfully implemented appropriate corrective actions.

(e) Auditors will conduct desk reviews utilizing financial information as reported through PEIMS by districts to identify those districts that are deficient in meeting the required 55% minimum expenditure level for certain special programs of the Foundation School Program, including special education, state compensatory education, bilingual education, and gifted and talented, and the required 60% minimum expenditure level for career and technical education. Findings will be reported to the districts, and responses will be considered in determining appropriate administrative actions.

(f) Auditors will be involved in the financial accountability rating system, in accordance with Senate Bill 218, 77th Texas Legislature, 2001. The system is known as the School Financial Integrity Rating System of Texas (FIRST). The financial accountability rating system is administered in a manner similar to the academic accountability rating system. The 81st Legislature added open-enrollment charter schools to the School FIRST system. The division will be administrating a financial rating system applicable to open-enrollment charter schools.

(g) Desk audits will be expanded to include many of the data elements reported by schools through PEIMS. This activity is intended to address issues involving poor data quality in certain school systems.

(h) Auditors will review superintendents' buyout contracts. This activity involves reviewing superintendents' contractual agreements and determining any necessary adjustments to school foundation fund payments.

(i) Auditors will review the local education agencies' (LEA) actual expenditures reported in the PEIMS to determine if the federal Maintenance of Effort (MOE) requirement is met. Federal law requires that each LEA receiving federal funds from the No Child Left Behind Act of 2001 (NCLB) or the Individuals with Disabilities Education Improvement Act of 2004 (IDEA) spend a certain amount of its local and state funds each year for these programs. This is referred to as MOE.

3. Document Review

(a) Audit reports of school districts, charter schools, and regional education service centers will be reviewed for compliance with laws, rules, and agreements. The audit reports will also be reviewed to determine compliance by the independent auditors with U. S. General Accounting Office (GAO) audit standards contained in Government Auditing Standards, as amended. Reported areas of noncompliance will be referred in accordance with the Single Audit Act and other regulatory requirements.

(b) State compensatory education agreed-upon procedures reports will be reviewed for compliance with laws and rules. A risk assessment will be performed based on 2010-2011 data to determine districts requiring an agreed-upon procedures report during fiscal year 2012.

(c) Charter school applications and business plans will be reviewed to assure that they meet the requirements for Generally Accepted Accounting Principles.

(d) Workshops will be conducted on attendance accounting, guidelines in the Financial Accounting System Resource Guide, federal and state fiscal and other grant requirements (including ARRA funding), purchasing procedures, and in other regulatory areas administered by the Division of Financial Audits. Workshops will also target attendance accounting and financial accounting concepts for charter schools.

(e) School district and charter school budget and actual financial data reported through PEIMS will be reviewed for indications of financial management problems.

(f) New depository bank contracts, changes to existing contracts, and surety agreements will be reviewed prior to updating the district's depository contract files.

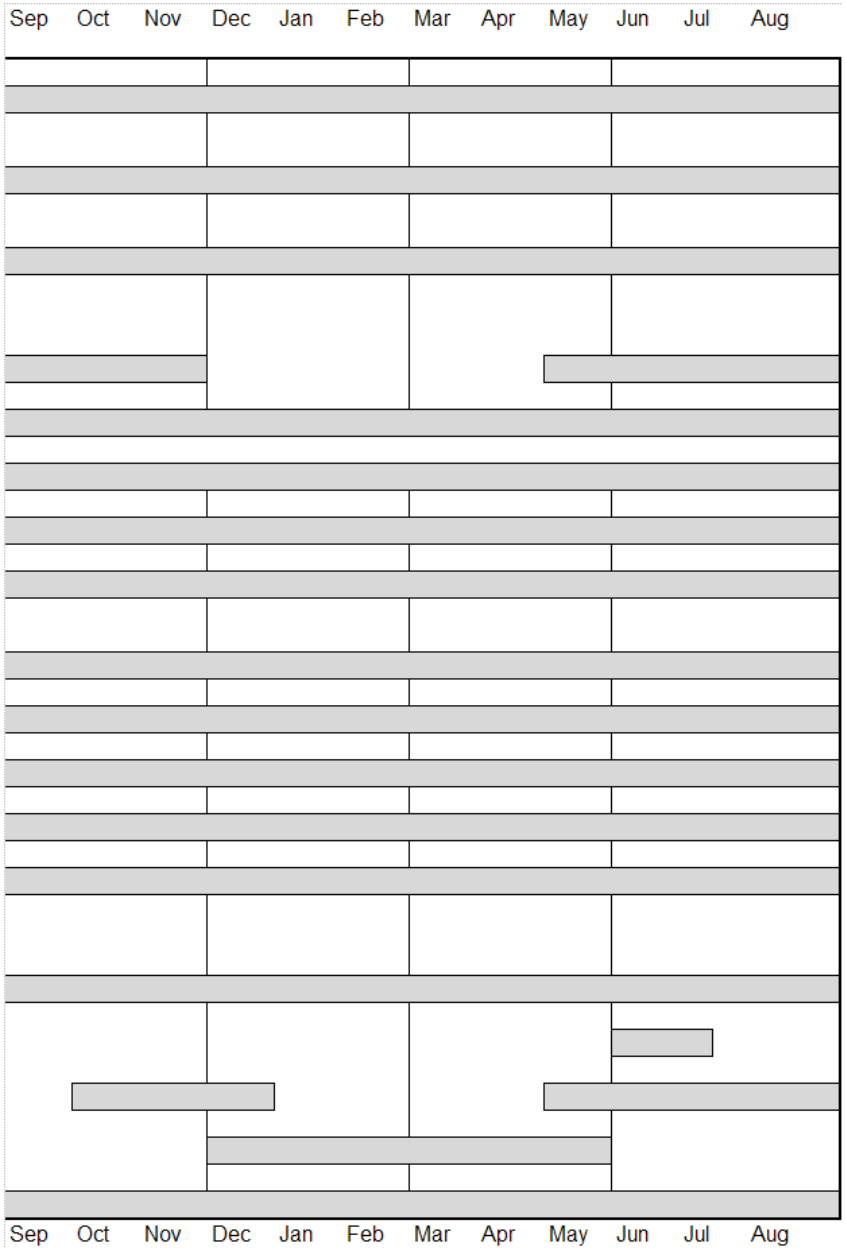
(g) Auditors will review the information reported by the districts on the Schedule of Expenditures for Computations of Indirect Costs. Based on the determined accuracy and completeness of the data submitted, the division will calculate and issue to each requesting district a restricted and non-restricted indirect cost rate to be applied to awarded grants. An indirect cost rate will also be calculated for open-enrollment charter schools that request a rate based on an approved formula from the United States Department of Education.

(h) Auditors will perform financial analysis on school district and charter school financial data and review the financial solvency reports for ISDs and charter schools in accordance with the new financial solvency rules established by the 81st legislative session.

(i) The Financial Accountability System Resource Guide will be updated to reflect changes in school district reporting, accounting and auditing standards as needed. Changes in law due to new laws passed by the 82nd Texas Legislature will be incorporated into the Resource Guide.

Progress and findings resulting from the Division of Financial Audits' 2010-2011 annual audit plan will be reported to the Committee on School Finance/Permanent School Fund at the January 2012 meeting. Interim reports, if deemed necessary by the commissioner of education or director of the division of financial audits, will be made whenever appropriate.

Staff will be available to review the audit plan with the committee.

DIVISION OF FINANCIAL AUDITS
Audit Plan
2011-2012

Compliance & Operations Audits	Performance Measures
Student Attendance Accounting Systems (ISDs and Charters)	210
Student Attendance Accounting Follow-ups (ISDs and Charters)	35
Grant Audits, Reviews and Surveys (ISDs, charters, ESCs and other grantees)	200
Special Audits & Reviews	
CPA Audit Workpapers (ISDs, Charters and ESCs)	10
Maintenance of Effort (ISDs, Charters)	330
Special/Criminal Investigations (ISDs, Charters and ESCs)	25
Transportation Audits (ISDs and Charters)	5
Fiscal/Transportation Audit Follow-ups	15
Reporting and Auditing System for State Compensatory Education (ISDs and Charters)	30
FSP Reviews	20
Superintendent Buyouts	15
Financial Solvency Reviews	120
Financial Stability Reviews	75
Document Review	
Independent Audit Reports (ISDs, Charters and ESCs)	1,265
Charter Applications	20
Depository Contracts	250
Indirect Costs Rate Calculations	1,025
Non-Profit Audit Reviews	80