ANNUAL AUDIT

The Board shall have a District's fiscal accounts audited annually at District expense by a Texas certified or public accountant holding a permit from the State Board of Public Accountancy.

The audit shall be completed following the close of each fiscal year, and shall meet at least the minimum requirements and be in the format prescribed by the State Board of Education, subject to review and comment by the state auditor. The audit shall include an audit of the accuracy of the fiscal information provided by the District through the Public Education Information Management System (PEIMS).

Education Code 44.008(a), (b)

FINANCIAL ACCOUNTABILITY SYSTEM RESOURCE GUIDE (FASRG)

The rules for financial accounting, including the selection of an auditor and the requirements for the audit, are described in the official TEA publication, *Financial Accountability System Resource Guide*, as amended, which is adopted as the State Board of Education's official rule. *19 TAC 109.41*

FILING OF REPORT

A copy of the annual audit report, approved by the Board, shall be filed with TEA not later than the 150th day after the end of the fiscal year for which the audit was made. If the Board does not approve the audit report, it shall nevertheless file a copy of it with TEA, accompanied by a statement detailing its reasons for failing to approve the report. *Education Code 44.008(d)*

FINANCIAL RECORDS

Each Treasurer receiving or having control of any school fund shall keep a full and separate itemized account of each of the different classes of school funds received, and these records shall be available to audit. *Education Code 44.008(c)*

FINANCIAL SOLVENCY

TEA shall conduct a financial solvency review of the District to anticipate the District's future financial solvency. The review is designed to alert districts to circumstances that could lead to financial insolvency. *Education Code 39.0822; 19 TAC 109.1101(a)*

DEFINITION

Financial solvency is the condition in which the District either is generally paying its debts as they become due, unless such debts are the subject of a bona fide dispute, or is able to pay its debts as they become due. *19 TAC 109.1101(b)(1)*

DATA REVIEWED

In its financial solvency review, TEA shall use the following data, which are available through existing data sources:

1. Annual financial audits for the past two school years;
2. PEIMS financial actual data for the past two school years;
3. PEIMS financial budget data for the current year and the past two school years;

4. PEIMS staff data for the current year and the past two school years;

5. PEIMS student data for the current year and the past two school years; and

6. School district tax rate data.

TEA shall request the following additional information from the District:

1. First-quarter District financial data for the current school year; and

2. District comments.

19 TAC 109.1101(c)

METHODOLOGY

In its financial solvency review, TEA shall analyze the following:

1. District revenues and expenditures for the past school year; and

2. Projected District revenues and expenditures for the current school year and the next two school years.

TEA may consider, for the past school year, the current school year, and the next two school years, as appropriate, the following:

1. Student-to-staff ratios relative to expenditures;

2. Average staff salaries;

3. The rate of change in the unreserved (assigned and unassigned, effective beginning with fiscal year 2010–11 data) general fund balance;

4. The number of students enrolled in the District;

5. The adopted tax rate of the District;

6. Any independent audit report prepared for the District; and

7. Actual District financial information for the first quarter.

19 TAC 109.1101(d)(1)–(3)

NOTIFICATION

TEA shall notify any District for which the financial solvency review shows one or more of the following:

1. A student-to-staff ratio that is significantly outside the norm;

2. A rapid depletion of the general fund balance; or

3. A significant discrepancy between submitted budget figures and projected revenues and expenditures.

19 TAC 109.1101(d)(4)

FURTHER REVIEW

TEA may extend the financial solvency review and require additional documentation of a district that receives notification. TEA shall use additional documentation and comments submitted by the District to determine whether the District is projected to have a deficit for its general fund within the next three school years. If the review indicates a projected deficit, the District must submit to TEA interim financial reports, supplemented by staff and student count data, as needed, for TEA to evaluate the current budget status of the District.

If analysis and evaluation of the interim financial reports substantiates a projected deficit within the next three school years, the District must develop and submit a financial plan for avoiding the projected insolvency to TEA for approval. TEA may monitor the implementation of a financial plan or modified financial plan for a period of up to three years.

19 TAC 109.1101(d)(5), (e)

IMPACT ON ACCREDITATION

The Commissioner shall assign an Accredited-Warned status to a district that is required to develop and submit a financial plan if:

1. The District fails to submit a financial plan to avoid a projected deficit;
2. The District fails to get approval from TEA for a financial plan or modified financial plan;
3. The District fails to comply with a TEA-approved financial plan; or
4. TEA determines in a subsequent school year, based on financial data submitted by the District, that the approved plan is no longer sufficient or is not appropriately implemented.

Education Code 39.0823; 19 TAC 109.1101(f)

APPEALS

All financial plan approval decisions made by the Commissioner in regard to the financial solvency review are final and cannot be appealed. *19 TAC 109.1101(g)*

PUBLIC INFORMATION

All documentation generated and gathered in the process of determining the District's financial solvency shall be considered working papers and not subject to open records requests. Financial solvency documentation related to districts required to submit fi-

nancial plans shall be subject to open records requests as permitted by statute or rule. *19 TAC 109.1101(d)(6)*

ANNUAL AUDIT OF DROPOUT RECORDS

The Commissioner shall develop a process for auditing District dropout records electronically. The Commissioner shall also develop a system and standards for review of the audit or use systems already available at TEA. The system must be designed to identify districts that are at high risk of having inaccurate dropout records and that, as a result, require on-site monitoring of dropout records.

If the electronic audit of the District's dropout records indicates that the District is not at high risk of having inaccurate dropout records, the District may not be subject to on-site monitoring. If the risk-based system indicates that the District is at high risk of having inaccurate dropout records, the District is entitled to an opportunity to respond to the Commissioner's determination before on-site monitoring may be conducted. The District must respond not later than the 30th day after the date the Commissioner notifies the District of the Commissioner's determination. If the District's response does not change the Commissioner's determination that the District is at high risk of having inaccurate dropout records or if the District does not respond in a timely manner, the Commissioner shall order TEA staff to conduct on-site monitoring.

Education Code 39.308(a)–(c)