

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 (SBOE), subject to review and comment by the state auditor. The audit shall include an audit of the accuracy of the fiscal information provided by a district through the Public Education Information Management System (PEIMS).

Education Code 44.008(a), (b)

**Audit Requirements
and Procedures**

A district must file with TEA an annual financial and compliance report and, if applicable, a state compensatory agreed-upon procedures report. These reports must be audited by an independent auditor, and the audit must be reviewed by TEA, including review of auditors' working papers, in accordance with the *Financial Accountability System Resource Guide (FASRG)*.

The annual financial audit report and state compensatory agreed-upon procedures report are due 150 days after the end of the fiscal year.

*Independent
Auditor*

A district must hire at its own expense an independent auditor to conduct an independent audit of its financial statements and provide an opinion on its annual financial and compliance report.

The independent auditor must:

1. Be associated with a certified public accountancy (CPA) firm that has a current valid license issued by the Texas State Board of Public Accountancy;
2. Be a certified public accountant with a current valid license issued by the Texas State Board of Public Accountancy, as required under Education Code 44.008; and
3. Adhere to the generally accepted auditing standards (GAAS), adopted by the American Institute of CPAs (AICPA), as amended, and the generally accepted government auditing standards (GAGAS), adopted by the U.S. Government Accountability Office, as amended.

The CPA firm must:

1. Be a member of the AICPA Governmental Audit Quality Center (GAQC);
2. Adhere to GAQC's membership requirements; and

3. Collectively have the knowledge, skills, and experience to be competent for the audit being conducted, including thorough knowledge of the government auditing requirements and:
 - a. Texas public school district environment; or
 - b. Public sector; or
 - c. Nonprofit sector.

If at any time the TEA division responsible for financial compliance reviews an audit firm's working papers and finds that the firm or the quality of the work does not meet the required standards, the division may require the district to change its audit firm.

19 TAC 109.23

Financial
Accountability
System Resource
Guide

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 SBOE'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 a 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
Accountability
Rating System**

TEA will assign a financial accountability rating to each district. The commissioner of education will evaluate the rating system every three years and may modify the system to improve the effectiveness of the rating system. *Education Code 39.082; 19 TAC 109.1001(b), (c)*

Data Reviewed

TEA will use the following sources of data in calculating the financial accountability indicators for school districts:

1. Audited financial data in a district's annual financial report, the audited annual report required by Education Code 44.008.
2. PEIMS data submitted by a district.
3. Warrant holds as reported by the comptroller.

4. The average daily attendance information used for foundation school program purposes for a district.

19 TAC 109.1001(d)

Basis for Rating TEA will base the financial accountability rating of a district on its overall performance on the financial measurements, ratios, and other indicators established by the commissioner. Financial accountability ratings for a rating year are based on the data from the immediate prior fiscal year. *19 TAC 109.1001(e)*

Types of Ratings The types of financial accountability ratings a district may receive are A for superior achievement, B for above standard achievement, C for standard achievement, and F for substandard achievement. A school district receiving territory due to an annexation order by the commissioner under Education Code 13.054, or consolidation under Education Code, Chapter 41, Subchapter H, will not receive a rating for two consecutive years beginning with the rating year that is based on financial data from the fiscal year in which the order of annexation becomes effective. After the second rating year, the receiving district will be subject to the financial accountability rating system.

The commissioner may lower a financial accountability rating based on the findings of an action conducted under Education Code, Chapter 39. A financial accountability rating remains in effect until replaced by a subsequent rating.

19 TAC 109.1001(h)–(j)

Issuance of Ratings TEA will issue a preliminary financial accountability rating to a district on or before August 8 of each year. TEA will not delay the issuance of a preliminary or final rating if a district fails to meet the statutory deadline under Education Code 44.008 for submitting the annual financial report. Instead, the district will receive an F rating for substandard achievement.

If TEA receives an appeal of a preliminary rating under 19 Administrative Code 109.1001(l), TEA will issue a final rating to a district no later than 60 days after receiving the appeal. If TEA does not receive an appeal of a preliminary rating, the preliminary rating automatically becomes a final rating 31 days after issuance of a preliminary rating.

19 TAC 109.1001(k)

A final rating issued by TEA may not be appealed under Education Code 7.057 or any other law or rule. *19 TAC 109.1001(m)*

**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 a 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 a 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. A district must respond not later than the 30th day after the date the commissioner notifies the district of the commissioner's determination. If a 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)