

April 10, 2023

Dr. Fernando Castillo, Interim Superintendent
Ben Bolt-Palito Blanco Independent School District
172 Badger Ln.
Alice, TX 78332-4451

RESPONSE REQUIRED

Dear Dr. Castillo,

RE: Preliminary follow-up and fiscal management review for FY 2021

The Financial Compliance Division at the Texas Education Agency (TEA) has conducted a preliminary review of Ben Bolt-Palito Blanco Independent School District (hereafter referred to as the "district"), as conveyed in the notification letter dated September 20, 2022, in accordance with the Texas Education Code, §7.021(b)(13). During our review, we examined the corrective actions taken by the district in response to issues identified during the district's annual financial audits and performed a review of the district's overall fiscal management.

In accordance with the Texas Education Code (TEC), §11.1511(b)(9) and §11.201(d)(5), it is the responsibility of the board of trustees and the superintendent to ensure that school districts have an internal control structure in place to provide reasonable assurance that the school district's assets are safeguarded from unauthorized use or disposition. It is also their responsibility to ensure that the objective of an effective and efficient operation is achieved, financial data is reliably and accurately reported, and the district is compliant with applicable laws and regulations.

The following report includes findings and the corresponding recommendations and required actions that resulted from this preliminary review.

Follow-up Review

External Auditor Findings and Comments

The external auditor noted the following items during the district's annual financial audit for fiscal years 2021 and 2022.

External Auditor Finding 2021-001: (Internal control material weaknesses and material noncompliance) - Timely Financial Statements:

Criteria: The District should provide monthly financial statements to management and the board of trustees in order for management to monitor and meet budget and compliance goals.

Condition: The District did not have timely financial statements during the fiscal year.

Cause: The District did not maintain timely financial statements during the year, we note the District had new personnel as well as the battle with the Covid virus which shut the school down on several extended occasions. The District contracted with the Education Service Center to assist with financial reconciliations and provide training for District personnel.

Effect: The District lacked accurate financials to make necessary compliance, financial and budget amendments as necessary.

Repeat Finding 2020-001

Status of Prior Year Finding 2020-001: At the end of the fiscal year, the District contracted with the Education Service Center to assist with accounting services. Post audit improvements are being made to establish timely financial statements. Post audit corrections were noted but at August 31, 2021, this finding was still valid.

External Auditor's Recommendation

The District should continue to utilize the Education Service Center to provide training and assist with providing financial reconciliations.

District's Corrective Action Plan

The District contracted with the Education Service Center during the end of the 2021 fiscal year to assist in reconciling the District's financial statements. Training of the District's staff is also being done.

External Auditor follow-up status during the annual financial audit for fiscal year 2022, as of August 31, 2022:

Finding 2021-001 Status Update

At the end of the fiscal year, the District contracted for assistance with accounting services. Post audit improvements are being made to establish financial statements. Post audit corrections were being made but at August 31, 2022, this finding was still valid. (See finding 2022-001 and related management letter comment number ML 2022-01)

Finding 2022-001 (Internal control material weaknesses and material noncompliance)

Criteria: The District should provide monthly financial statements to management and the board of trustees in order for management to monitor and meet budget and compliance goals.

Condition: The District did not have timely financial statements during the fiscal year. In addition, the District did not have reconciled bank statements for the fiscal year or in the post audit period.

Cause: The District did not maintain timely financial statements during the year, we noted the District had new personnel as well. The District contracted with the various personnel to assist with financial reconciliations and provide training for District personnel. A lack of reconciliations was also noted for the bank statements. The result was a lack of information to provide to the board of trustees, management, as well as the ability to provide information to the outside auditor.

External Auditor's Recommendation

The District should continue to utilize experienced personnel to provide training and assist with providing financial reconciliations.

District's Corrective Action Plan

The District has contracted with personnel during the end of the 2022 fiscal year to assist in reconciling the District's financial statements. Training of the District's staff is also being done.

ML 2022-01: During our testing of Cash Analysis it was noted that the Bank reconciliations were not being done on a timely basis and many were not available or provided.

External Auditor's Recommendation

For internal controls, accountability all bank and investment accounts should be reconciled on a timely basis. This needs to be rectified for the financials to be reconciled.

TEA Follow-up

The FY 2022 Independent Auditor's Reports reported that a **qualified opinion** was issued on financial statement reporting which included governmental activities, general fund, debt service fund, and aggregate remaining fund information. The external auditor disclosed that the basis for the qualified opinion was because management did not provide cash reconciliations nor recorded sufficient accruals for the fiscal year for all the applicable funds, which created a scope limitation to performing audit procedures. We also note that this appears to be related to issues noted in the FY 2022 management letter comment number ML 2022-01 and to issues noted in finding number 2021-001 from the FY 2021 AFR.

The FY 2022 Independent Auditor's Reports also expressed **qualified opinions** on the ESSER III federal program and the National School Lunch Program. The external auditor stated that the district did not comply with requirements regarding ESSER and National School Lunch Program regarding federal program reporting requirements with reconciled financial data, ESSER fund, and National School Lunch Program as described in finding numbers 2022-001 and 2022-003.

During our review, we noted that the district does not appear to have sufficient procedures for month-end and year-end financial close, which includes bank statement reconciliations, journal entries, ledger reconciliations, and financial statement compilation. Also, the bank reconciliations provided did not indicate if they were approved by the CFO or similar position.

TEA Recommendation

We recommend that the district continue working with the Education Service Center to receive specialized training and the assistance needed to deliver timely financial reconciliations.

We also recommend that the district review and update their procedures for these essential processes, including sequential steps, staff assigned, who is responsible for approving, and a timeframe on when tasks should be done.

TEA Required Action

The TEA has a high level of concern over the internal controls placed on providing timely and accurate financial statements to management and the board of trustees in order for management to monitor and meet budget and compliance goals. Deficiencies in the controls governing financial statement reporting has led to solvency issues in other districts. The district is encouraged to increase the frequency of monitoring by the superintendent and ensure all staff with oversight responsibilities complete these processes in a timely manner.

TEA Follow-up Requirement for the District

Please provide TEA with the district's corrective action plans to resolve the matters which led to the qualified opinions issued in the FY 2022 AFR for both financial reporting and the two federal programs: ESSER III and National School Lunch Program.

External Auditor Finding 2021-002: (Internal control deficiencies and noncompliance) - Unfavorable Budget Variances

Criteria: The District is required to maintain expenditures within budgeted funds.

Condition: The District went over on several line items due to the lack of timely financials which prevented the district from making budget amendments as needed.

Cause: The District lacked timely financials which prevented the district from making budget amendments.

Effect: The District went over on a few line items due to the lack of timely financials which prevented the District from making budget amendments as needed. Material corrections were noted.

Repeat Finding 2020-004 and similar comments were noted under the Financial Compliance Division Comments section in the 2019 and 2018 AFR review letters.

Status of Prior Year Finding 2020-004: At the end of the fiscal year, the District contracted with the Education Service Center to assist with accounting services. Post audit improvements were noted, minor budget variances were noted.

External Auditor's Recommendation

We note the District contracted with the Education Service Center to assist with its personnel with reconciliations of the financial statements.

District's Corrective Action Plan

The District contracted with the Education Service Center during the end of the 2021 fiscal year to assist in reconciling the District's financial statements. Training of the District's staff is also being done.

External Auditor follow-up status during the annual financial audit for fiscal year 2022, as of August 31, 2022:

Finding 2021-002 Status Update

At the end of the fiscal year, the District contracted for assistance with accounting services. Post audit improvements are being made to establish financial statements. Post audit corrections were being made but at August 31, 2022, this finding was still valid.

TEA Follow-up

During our review, we noted that the district does not appear to have sufficient written procedures for the overall budget process, which includes planning, developing, and implementing the annual budget; monthly monitoring and approving appropriate expenditures of budgeted funds; and providing clear and timely budget reports.

We examined the district's budget to actual schedules of the general fund for fiscal years 2021 and 2022. It was noted that there was an immaterial budget variance in function 71 – debt service in FY 2021. We also noted unfavorable variances in revenue sources during both fiscal years, which did not appear material. The actual general fund ending balance for FY 2021 was significantly higher than budgeted; however, the actual general fund ending balance for FY 2022 was slightly lower than budgeted.

*****We also note there were similar issues addressed in a previous TEA fiscal management review from FY 2015.**

TEA Recommendation

We recommend that the district require a separate finance budget board item before:

- Any line item in any fund is increased which requires additional local or state funding appropriations.
- Any funds are moved between funds.
- Any funds are moved between functions in the general fund, cafeteria fund, debt service fund, capital projects fund, or other appropriate funds.
- Any revenue or expenditure is anticipated in any 7000 or 8000 account.

All staff with oversight responsibilities should monitor budget-to-actual spending on a monthly basis. Budget amendments should be considered and proposed to the board of trustees for approval whenever it is projected that actual expenditures will be more than currently budgeted before the actual expenditure of funds. Actual and budgetary reports should be presented to the board of trustees on a monthly basis. Monitoring on a monthly basis would allow the district sufficient time to make adjustments before year-end.

TEA Required Action

The superintendent should ensure monthly financials are prepared on a timely basis so that staff responsible for overseeing the budget process have an opportunity to monitor budget-to-actual spending reports and have ample time to make adjustments as needed.

External Auditor Finding 2022-003: (Internal control material weaknesses and material noncompliance) - Receivables and Payables Accruals

Criteria: The District is required to sufficient accruals for the financial statements during any fiscal year.

Condition: The District did not make sufficient accruals regarding receivables and payables during the fiscal year.

Cause: The District lacked proper experienced staffing as well as staff to make timely accrual adjustments for the financial statements.

Effect: The District did not have financial statements that complied with generally accepted accounting principles.

External Auditor's Recommendation

The District must get its financial statements caught up and prepared in accordance with generally accepted accounting principles.

District's Corrective Action Plan

The District has contracted with personnel during the end of the 2022 fiscal year to assist in reconciling the District's financial statements. Training of the District's staff is also being done.

TEA Follow-up

See comments and recommendations noted under Finding 2021-001.

External Auditor Management Letter Comment # ML2021-01: W-9 Testing

During the Subcontractor W-9 testing, we noted that the District was not able to provide all of the sampled W-9 forms requested.

A similar comment (ML2020-01) was noted in the prior year's management letter.

External Auditor's Recommendation

For internal controls, compliance, and accountability purposes, the District should conduct reviews of its W-9 and 1099 forms for inconsistencies and ensure all required forms are available and kept on file for the District, in a scanned format for easy accessibility.

TEA Follow-up

We concur with the recommendations of the external auditor, which included conducting reviews of its W-9 and 1099 forms for inconsistencies and ensuring all required forms are available and kept on file for the District, in a scanned format for easy accessibility.

This issue was not noted by the external auditor during the FY 2022 annual financial audit.

Best Practices

Efficient and prudent practices for the master vendor list controls include, but are not limited to, the following:

- segregating duties of monitoring, reviewing, authorizing, and updating.
- reviewing and removing inactive vendors.
- comparing the current year master vendor list to the previous year's list for differences, discrepancies, and anomalies that should be investigated such as duplicate names, same addresses but different names, vendor names with employee addresses, and vendors with just a post office box address, changes in address or status from active to inactive, vendors with the same mailing address and post office box addresses, and similar vendor names.
- limiting update access of the master vendor list to a minimum of individuals.
- having written master vendor list procedures, including vendor list procedures in the business office procedures manual.
- authorizing and documenting all changes to the master vendor list such as adding or deleting vendors, changes in active or inactive status, and changes of address.
- reviewing of the W-9 and 1099 forms for inconsistencies and ensuring all required forms are issued to vendors, names and addresses match, and all forms are kept on file.
- reviewing a monthly report of master vendor list updates.

TEA Recommendation

Along with recommendations by the external auditor, TEA also recommends that the district consider the items listed as best practices above to strengthen internal controls and update their procedures for collecting and retaining vendor W-9 forms.

External Auditor Management Letter Comment # ML2021-02: State Allotment Programs

During the audit of state mandated funds, we noted several of the programs - state compensatory and early education were short of its required ratios.

A similar comment was noted as a Finding 2020-003 in the prior year's AFR.

Status of Prior Year Finding 2020-003: Major improvements were noted and this should be corrected in the upcoming fiscal year.

External Auditor's Recommendation

For internal control, compliance, and accountability, the District should monitor its state mandated funds for ratio requirements.

External Auditor follow-up status during the annual financial audit for fiscal year 2022, as of August 31, 2022:

Finding 2022-002 (internal control significance deficiencies)

Criteria: The District is required to maintain expend state mandated funds within a required percentage ratio.

Condition: The District did not expend sufficient funds in the state mandated and career and technology funds. A lack of financials were the due cause.

Cause: The District lacked timely financials which prevented the District from making necessary expenditures for state mandated funds.

Effect: The District did not expend sufficient funds in the stated mandated funds.

External Auditor’s Recommendation

The District must get its financial statements caught up and expend according to budget and state/federal requirements.

District’s Corrective Action Plan

The District has contracted with personnel during the end of the 2022 fiscal year to assist in reconciling the District’s financial statements. Training of the District’s staff is also being done.

TEA Follow-up

The TEA policy provides maximum flexibility to school districts by averaging costs up to three years in its internal compliance testing for the FSP supplemental allotment programs (*FASRG Modules 1, FAR Appendices, section A.8*). This calculation also includes the ESSER fund codes 266, 281, 282, and 283 in the amounts for fiscal years 2020 through 2024.

A running 3-year analysis of fiscal years 2019, 2020, and 2021 shows the district was not meeting spending requirements in three of the supplemental allotment programs: Career and Technology Education, Compensatory Education, and Early Education. Please see the following table.

Allotment Programs’ 3-year average analysis (includes ESSER fund codes 266, 281, 282, and 283 in the amounts for fiscal years 2020 and 2021)

Enter CDN=>		125902 BEN BOLT-PALITO BLANCO ISD							
Program Intent Code (PIC)	PIC 21	PIC 22	PIC 23, 33	PIC 24, 26, 28, 29, 30, 34	PIC 25, 35	PIC 36	PIC 37, 43	PIC 38	
Supplemental State Allotment Area	Gifted and Talented	Career and Technology Education	Special Education	Compensatory Education	Bilingual Education	Early Education	Dyslexia	College, Career and Military Readiness	
Required Level of Spending	100%	55%	55%	55%	55%	100%	100%	55%	
COMPLIANCE									
2019-2021 In compliance True or False?		FALSE		FALSE		FALSE		FALSE	
2019-2021 Summary of Finance 3 year average	\$ 20,576	\$ 433,195	\$ 432,927	\$ 629,345	\$ 10,588	\$ 70,959	\$ 3,388	\$ 21,000	
2019-2021 Actual Expenditure 3 year average	\$ 67,581	\$ 208,896	\$ 295,875	\$ 189,870	\$ 34,153	\$ 13,908	\$ 4,453	\$ 17,320	
2019-2021 Percent of funds expended 3 year average	328%	48%	68%	30%	323%	20%	131%	82%	
2019-2021 Amount of expenditure needed to be in compliance	-	(29,362)	-	(156,270)	-	(57,051)	-	-	

*****We also note there were similar issues addressed in a previous TEA fiscal management review from FY 2015.**

TEA Recommendation

From a budgeting perspective, the district should budget to meet the minimum spending requirements using unallocated amounts, so when TEA uses allocated amounts, the district would meet the spending requirements.

All staff responsible for overseeing compliance with the various supplemental allotment programs should monitor spending compliance on a monthly basis. If the district were short on its spending requirements, this would allow time to evaluate whether there were possible coding errors and/or find additional uses for the allotment program funds. Monitoring on a monthly basis would allow the district sufficient time to make adjustments before year-end. As part of the budget monitoring process, the district should review amounts for the supplemental allotment programs reported in the Summary of Finances (SOF) and make any adjustments necessary.

TEA Required Action

The superintendent should ensure that all staff responsible for overseeing compliance with the various supplemental allotment programs monitor spending compliance on a monthly basis to avoid not meeting spending requirements in the future.

External Auditor Management Letter Comment # ML2021-03: Testing of Expenditures

During our testing of expenditures, we noted various invoices were not stamped "PAID" nor had account coding on the invoices, and vendors had purchase orders that were dated and/or issued after the invoice date(s).

A similar comment (ML2020-003) was noted in the prior year's management letter.

External Auditor's Recommendation

For internal controls, accountability and compliance purposes, purchase orders should be issued prior to the invoice date of purchase, invoice(s) should have account coding and be stamped "PAID" and all documentation should be reviewed to ensure all required and supporting documentation is received and kept in the District files.

External Auditor follow-up status during the annual financial audit for fiscal year 2022, as of August 31, 2022:

ML2022-03: During our testing of expenditures for Board-Employee travel we noted no supporting information provided for four of the sampled items. Two invoices had no coding on them, one invoice had no account coding and on registration form was dated prior to the purchase order date.

External Auditor's Recommendation

For internal controls, accountability and compliance purposes, purchase orders should be issued prior to the invoice date of purchase, invoice(s) should have account coding and be stamped "PAID" and all documentation should be reviewed to ensure all required and supporting documentation is received and kept in the District files.

TEA Follow-up

We conducted our review of ML2021-03 and ML2021-04 simultaneously. It appears the district has not made improvements in this area because we noted the same issues during our review testing. We reviewed 16 invoices and noted several exceptions as follows: seven of the check requests forms did not have the signature of a student officer, there was one check request form that did not have the signature of the principal, one check request form did not list the quantity and unit price, three of the invoices were not stamped "PAID", and some of the purchase orders were dated and/or issued after the invoice dates. We also noted that none of the invoices had account coding.

The external auditor also noted similar issues again during the FY 2022 annual financial audit in their communication letter to management - number ML2022-02. (See comments noted under management comment # ML2021-04 in the subsequent section below)

*****We also note there were similar issues addressed in a previous TEA fiscal management review from FY 2015.**

TEA Recommendation

We offer the following recommendations to strengthen the internal controls of the district's accounts payable and purchasing processes.

- The district should review and update their procedures, including sequential steps, staff assigned, who is responsible for approving, and a timeline on when tasks should be done.
- The district should ensure personnel follow the guidance set forth in their purchasing procedures manual and that requisitions and purchase orders are created, reviewed, and approved prior to acquiring goods and services.
- The district's accounts payable department should maintain a list of incorrect purchasing and invoice payment occurrences with written documentation for monitoring, training, and coaching purposes. That documentation can be provided to the external auditor on an annual basis.
- The district should require all business office personnel who review or are responsible for purchasing to attend TASBO purchasing and coding classes as soon as possible after being hired but before being charged with making independent purchasing, coding, or related payment review. The CFO or designee should monitor each relevant employee's training to assure that employees are aware of the current processes for purchasing, accounts payable, and coding.

TEA Required Action

The superintendent should ensure that the district review its internal control procedures over the purchasing and procurement processes and specifically address reviewing and monitoring procedures, and segregation of authorizing and recording duties.

External Auditor Management Letter Comment # ML2021-04: Student Activity (custodial) testing

During student activity (custodial) testing, we noted that our samples of the selected expenditures, the samples selected were not stamped "Paid" and various samples had purchase orders dates after the invoice date.

A similar comment (ML2020-04) was noted in the prior year's management letter.

External Auditor's Recommendation

For internal controls and accountability, invoices should be stamped "Paid" and purchase order requests should be done prior to the actual purchases.

External Auditor follow-up status during the annual financial audit for fiscal year 2022, as of August 31, 2022:

ML2022-02: During student activity (custodial) testing, we noted that our samples of the selected expenditures, the samples selected were not stamped "Paid" and various samples had purchase orders dates after the invoice date and there was no account coding on any invoices.

External Auditor's Recommendation

For internal controls and accountability, invoices should be stamped "Paid" and purchase order requests should be done prior to the actual purchases and all invoices should have the proper account coding on them.

TEA Follow-up

We conducted our review of ML2021-03 and ML2021-04 simultaneously.

The external auditor also noted similar issues again during the FY 2022 annual financial audit in their communication letter to management - number ML2022-03. (See comments noted under management comment # ML2021-03)

*****We also note there were similar issues addressed in a previous TEA fiscal management review from FY 2015.**

TEA Recommendation

See comments stated under ML2021-03.

External Auditor Management Letter Comment # ML2021-05: Testing of the Commodities

During our testing of the commodities, we noted the ending year inventory was not booked.

A similar comment (ML2020-05) was noted in the prior year's management letter.

External Auditor's Recommendation

For internal control and accountability, the District should maintain record end of year commodities on the ledgers.

Ben Bolt-Palito Blanco ISD (125-902)
RE: Preliminary follow-up and fiscal management review_FY 2021
April 10, 2023

TEA Follow-up

During our review, we noted that the District provided an end of year budget amendment, but at the time it did not include an adjustment for inventory supplies and materials. The District noted they were working with their external auditor on these adjustments.

This issue was not noted by the external auditor during the FY 2022 annual financial audit.

The district appears to have adequately implemented the required actions. No further action is required.

External Auditor Management Letter Comment # ML2021-08: Vendor Testing

During our vendor testing, it was noted that of the three vendors selected for testing, these vendors were not board approved or on the Buy Board list.

A similar comment (ML2020-02) was noted in the prior year's management letter.

External Auditor's Recommendation

For internal controls and compliance, vendors should be selected for the purchase of services/goods through a board approved list or the Buy Board.

TEA Follow-up

The District minutes were reviewed from January 2022 through August 2022, and we noted there were not any vendor approvals mentioned during that time period.

This issue was not noted by the external auditor during the FY 2022 annual financial audit.

The district appears to have adequately implemented the required actions. No further action is required.

Please use letterhead to provide your district's written response of the findings, recommendations, and required actions contained in this report within 20 business days from the date of this letter via email at fiscalreviews@tea.texas.gov.

Should you have any questions, please contact Jewel Gill at 512-936-6186 or email at jewel.gill@tea.texas.gov

Sincerely,

Peggy Watts
Manager, Financial Compliance Division

cc: Julie Ramos, Board President, Ben Bolt-Palito Blanco Independent School District
David Marx, Director, Financial Compliance Division, TEA
Paul Moreno, Assistant Director, Financial Compliance Division, TEA