

- SUBJECT:** Expanded use and electronic monitoring of compensatory education funds
- COMMITTEE:** Public Education — favorable, without amendment
- VOTE:** 6 ayes — Grusendorf, Branch, Dawson, Eissler, Griggs, Hochberg
0 nays
3 absent — Oliveira, Dutton, Madden
- SENATE VOTE:** On final passage, April 15 — voice vote (Barrientos, Shapleigh recorded nay)
- WITNESSES:** For — Bill Carpenter, Houston Independent School District; Philip Cheatham, Texas Association of School Boards; Harley Eckhart, Texas Elementary Principals & Supervisors Association; Michael Hinojosa, Texas Association of School Administrators, Spring Independent School District; Mike Lee, Booker Independent School District

Against — None
- BACKGROUND:** In addition to a basic allotment for each student based on average daily attendance, school districts receive a compensatory allotment for each student who is educationally or economically disadvantaged or lives in a residential placement facility where the student’s parents do not reside. Under Education Code, sec. 42.152, the compensatory allotment may be used only to fund supplemental programs and services designed to eliminate disparities on assessment tests or in dropout rates between at-risk students and other students. Specifically, the funds may be used only to meet the costs of providing a compensatory, intensive, or accelerated instruction program to serve at-risk students and economically disadvantaged students. No more than 18 percent of compensatory education funds may be used to fund disciplinary alternative education programs. The Texas Education Agency (TEA) distributes about \$1 billion per year to school districts to fund the compensatory education allotment.
- The 77th Legislature in 2001 enacted SB 646 by Bivins, requiring school districts to have dropout records audited at least once a year at the district’s

expense by a certified accountant who is not a district employee and has been trained by TEA to audit dropout records. School districts are required to submit the approved audited reports to TEA, or to submit an explanation of why the district did not approve a report.

Education Code, sec. 42.152 requires the State Board of Education, with the assistance of the state auditor and the comptroller, to develop and implement by rule a reporting and auditing system for district and campus compensatory allotment funds to ensure that these funds are used only to supplement the regular program.

Sec. 42.006 requires that each school district submit to TEA information on student demographics and academic performance, personnel, and school district finances through the Public Education Information Management System (PEIMS), an electronic data system that provides information necessary for the Legislature and TEA to perform their legally authorized functions.

DIGEST:

SB 894 would amend Education Code, sec. 42.152, to specify that compensatory allotment funds “shall” be used to meet the costs of providing a compensatory, intensive, or accelerated instruction program for at-risk or economically disadvantaged students. The bill no longer would require that these funds be used “only” for these purposes. It would require that these funds be used for such supplementary education expenses as program and student evaluations, instructional materials, staff expenses, teacher salaries, smaller class sizes, and individual instruction for at-risk and economically disadvantaged students. These changes would apply to the use of compensatory education funds for any school year, including a school year before the bill’s effective date of September 1, 2003.

The bill would specify that a district could use its compensatory education allotment to fund programs specifically designed to serve students at risk of dropping out of school.

SB 894 would eliminate the requirement that school districts conduct an annual audit of dropout data expenditures and instead would require TEA to develop a process for auditing these records electronically. TEA would develop a system and standards for review of the audit or use systems already

in place. The system would be designed to identify districts at high risk of having inaccurate dropout rates that, as a result, required on-site monitoring. If the electronic audit indicated that a district was not at risk of having inaccurate records, TEA could not conduct on-site monitoring. If the system indicated that a district was at high risk of having inaccurate records, the district would have an opportunity to respond within 30 days to TEA's determination before monitoring could be conducted.

The State Board of Education, with the assistance of the state auditor and comptroller, would have to set up electronic reporting and auditing systems for district and campus expenditures of compensatory education funds to minimize local administrative costs. This information would have to be submitted within 150 days of the deadline for submitting information to PEIMS. The system would be designed to identify districts that were at high risk of having misused compensatory education funds. If the electronic audit indicated that a district was not at risk of misusing these funds or inadequately having reported expenditures, the district could not be required to conduct a local audit and would not be subject to on-site monitoring.

If the system indicated that a district was at high risk of having inaccurate records, the district would have an opportunity to respond within 30 days to TEA's determination. If the response did not change TEA's determination or if the district did not respond in a timely manner, TEA could require the district to conduct a local audit, order agency staff to conduct on-site monitoring of district expenditures, or both. TEA could require agency staff to assist the district in following the proper reporting methods or amending a campus improvement plan. If the district did not take appropriate corrective action within 45 days of the date TEA notified the district of the action, TEA could require a local audit or on-site monitoring.

The bill would take effect September 1, 2003.

**SUPPORTERS
SAY:**

SB 894 would give school districts more flexibility in deciding how to use compensatory education funds and eliminate burdensome and expensive auditing and reporting requirements. School districts still would be required to use these funds to help bridge academic gaps for at-risk and economically disadvantaged students, but they could do so without the cumbersome and impractical requirement that compensatory education funds be used "only" for

these purposes. Separating those activities which benefit students who qualify for compensatory education funds from other activities can result in duplication and confusion about which expenses can be paid using these funds.

The bill would establish a more targeted and cost effective electronic auditing and reporting system for monitoring the use of compensatory education funds. The current requirement that every school district pay for an annual audit of this information, even if funds are being used properly, is expensive and unnecessary. TEA can and should conduct basic oversight electronically using PEIMS data and other information submitted by school districts. If TEA detected a problem with the data or reporting of a particular district, then monitoring would be justified. Eliminating the audit requirement for reporting of dropout data alone is expected to generate \$40 million in savings to school districts throughout the state.

**OPPONENTS
SAY:**

SB 894 would dilute the intended purpose of the compensatory education allotment by giving school districts broad discretion to fund programs that might benefit other students at the expense of those who needed the extra help. Existing statutes were drafted to prevent school districts from using compensatory education funds to supplant funding for regular programs. Without these protections, school districts would be more likely to use at least a portion of these funds to cover the cost of programs that benefitted students who did not need or qualify for this extra attention.

This bill would allow school districts to use compensatory education funds to pay the full cost of alternative education programs (AEPs) for students at risk of dropping out. This quickly could drain the resources of regular campus programs for dropouts and economically disadvantaged students because the cost of operating an AEP is about six times higher than the cost of operating a regular program.

The provisions of the bill should not apply to audits conducted in 2002-03. TEA should be able to use these audits, which already should have been completed and submitted, to review overall compliance with dropout data submission and compensatory education expenditures.

**OTHER
OPPONENTS
SAY:**

SB 894 should require an accountability system to ensure that compensatory education audits, whether conducted by TEA or individual districts, include some mechanism to measure the disparities between at-risk students and other students not funded with compensatory education allotment funds.

NOTES:

Two related bills have passed the House and currently are pending in the Senate Education Committee. HB 2825 by Eissler would require TEA to limit monitoring of school districts to determining compliance with federal law and regulations and to maintaining the accuracy of PEIMS data for accountability purposes. HB 3459 by Pitts also would amend requirements for TEA monitoring of school district compliance. Cyclical monitoring would be performed only as necessary to ensure school district compliance with federal law, financial accountability, and data integrity with regard to PEIMS and accountability in certain areas.