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**An Assessment of the Texas Education Agency's
Monitoring Systems for Public Education**

August 1996

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Overall Conclusion

The Texas Education Agency (Agency) does not use its financial and student performance accountability systems to effectively monitor school districts. This increases the risk that the $10 billion in state and federal funds (fiscal year 1996) are not fully used to achieve the state's goals for public education. Program funds totaling $160 million were not spent by districts on direct services as required in 1994. The student dropout rate is more than double the reported rate for 1994.

Key Facts and Findings

- The Agency does not effectively use the extensive quantities of financial expenditure data collected from school districts to assess district expenditures. As a result, the Agency cannot ensure that funds are spent appropriately and that students receive the intended benefits.

- The student dropout rate is estimated at 5.7 percent for fiscal year 1994 rather than the 2.6 percent reported by the Agency. The dropout rate is one of the base indicators to determine district and campus accountability ratings which are used to assess the effectiveness of the Texas public education system.

- The Agency has not performed cyclical on-site monitoring visits for the Bilingual Education program at 860 districts. Additionally, the Agency has not visited 205 districts for its Special Education program in eight or more years. Performance of comprehensive monitoring visits is critical when compensating controls such as financial analysis and risk assessment do not exist.

- Poor communication, reliance on manual processes, and a lack of streamlined internal procedures hinders the Agency's ability to monitor school districts. This creates incomplete and inaccurate records, results in inefficiencies in Agency operations, and places unnecessary burdens on school districts.

- The Agency's leadership changed in March 1995 with the appointment of a new Commissioner of Education. Efforts have been made by the leadership to address the changes in Senate Bill #1, 74th Legislature. Additionally, the Agency has responded positively to address the issues and recommendations in this report.

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This audit was conducted in accordance with Government Code Sections 321.0131 and 321.0132.

Executive Summary

The Texas Education Agency (Agency) does not use its financial and student performance accountability systems to effectively monitor the $10 billion in state and federal public education funds (see Figure 1). The Agency is responsible for monitoring state and federal funds used by school districts to achieve the State's goals for public education. When financial accountability and student performance monitoring systems are not used effectively, the Agency risks:

- Inappropriate use of funds
- Not achieving desired outcomes
- Loss of federal funds
- Deficit spending

Figure 1

The Texas Education Agency Is Currently Responsible for Monitoring:

- $10 billion in state and federal funds
- Academic achievement of 3.6 million children
- 1,044 school districts
- 20 regional educational centers

Financial Accountability Systems Are Not Used Effectively to Monitor Districts

The Agency does not effectively use the extensive quantities of data contained in its financial accountability systems. Trend, ratio, peer group, and other data analysis techniques are not performed across various data collection systems. This reduces the Agency's ability to obtain a comprehensive financial picture at the district level. As a result, the Agency cannot ensure that funds are spent appropriately and that students receive the intended benefits.

Specifically, the Agency does not use its financial accountability system information to determine if:

- Districts spent their entire allotment amount
- District expenditures were for direct program services
- District expenditures were appropriate and reasonable

Information contained in the Agency's financial accountability systems indicated that districts did not spend $160 million (see Figure 2) of state program funds on direct services in the following programs in 1994:

- Compensatory Education
- Bilingual Education
- Special Education
- Career and Technology

The impact of the 1994 data continues to exist with the Agency's current processes and procedures. These state and federal programs were established to help support specific student populations in achieving desired outcomes. Funding for these programs is to be used to supplement the basic education program funds.

Figure 2

$160 Million Not Spent for Direct Program Services in 1994

Program	Amount (In Millions)
Compensatory Education	$ 49
Bilingual Education	$ 43
Special Education	$ 64
Career and Technology	$ 4
Total	$ 160

Executive Summary

Student Dropout Rate Is More than Double the Reported Rate for 1994

The student dropout rate is more than double the reported rate for 1994. The dropout rate is estimated at 5.7 percent for fiscal year 1994 rather than the 2.6 percent reported by the Agency. The 5.7 percent is significantly more than the targeted 3.9 percent set by the Legislature for 1994.

The dropout rate is an important measure of performance for school districts. It is one of the base indicators to determine district and campus accountability ratings which are used to assess the effectiveness of the Texas public education system.

The Agency's number of reported student dropouts is significantly understated. We determined through statistical sampling that there were more than 87,000 dropouts during the 1993-1994 period, whereas the Agency reported 40,211 students as dropouts.

Figure 3

The Monitoring Process for Public Education Funding

Application Process and Funding

On-Site Visits Financial Audits Investigations

The Monitoring Process

Data Collection and Complaints

Data Analysis and Desk Reviews

## On-Site Monitoring Visits Have Not Been Completed

The Agency has not completed its on-site monitoring visits for Bilingual Education programs at 860 districts. Additionally, the Agency has not visited 205 districts for its Special Education program in eight or more years. On-site monitoring visits provide verification of self reported student performance and financial data. These comprehensive monitoring visits are especially necessary to ensure that state program funds are spent appropriately. Performance of comprehensive monitoring visits is critical when compensating controls do not exist.

Inefficient Use of Resources Hinders Monitoring Function

Poor communication, reliance on manual processes, and lack of streamlined internal procedures hinders the Agency's ability to monitor school districts. Due to the magnitude of the Agency's oversight responsibilities, effective communication and streamlining of processes and procedures are imperative to permit an efficient and effective monitoring function. (See Figure 3.)

A decentralized organizational structure has contributed to the lack of communication and coordination across divisional lines. Divisions within the Agency are focused on their individual programs and responsibilities. In addition, difficulties in obtaining information from centralized information databases have resulted in the creation of ad hoc systems throughout the Agency. Consequently, information is not shared across programs and divisions, causing duplication of effort and incomplete information for decision making purposes.
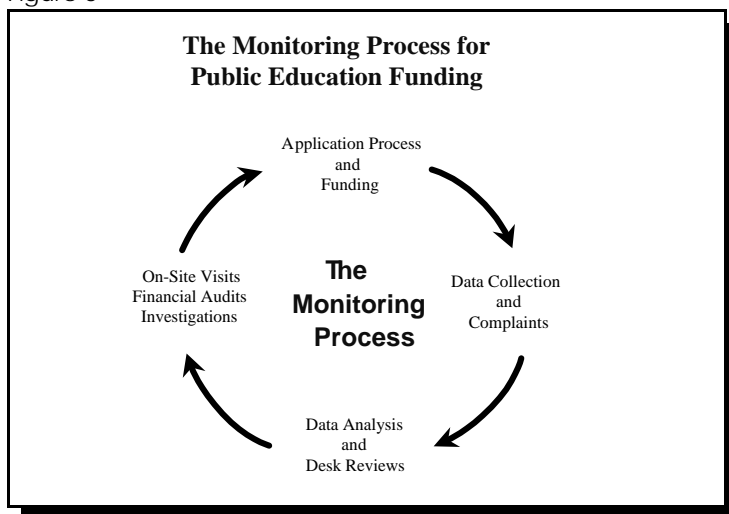
Executive Summary

Reliance on manual reports and processes has resulted in inefficiencies, inaccuracies, and incomplete records. The Agency's lack of streamlined internal processes and procedures for grant applications, document tracking, and visitation schedules result in an inefficient use of resources and places an unnecessary burden on districts.

Summary of Management's Responses

Management agrees that certain past practices of the Agency involving the monitoring of fiscal accountability in the public schools are in need of improvement. As the Agency develops a comprehensive improvement plan for the monitoring function, the findings and recommendations of the State Auditor will be of paramount importance. Management does believe that the vast majority of educational programs in the public schools operate in compliance with their fiscal and programmatic responsibilities. However, in a system involving over $20 billion in local, state and federal funds, even one flaw can cause the integrity of the entire administration to be questioned, and rightfully so. Management will be vigilant in its oversight of the administration of these funds.

With this report, the State Auditor has performed an important service to the Agency. The findings presented here provide a benchmark against which progress can be measured. Management has already initiated several responses to the identified shortcomings in the monitoring function. Resolution of these issues will require a comprehensive effort of personnel and Agency information resources. While there are no easy answers, the Agency welcomes the challenge of developing long-term solutions to improve the Agency's performance in the

monitoring function and, as a result, improve the performance of Texas school children.

Summary of Audit Objectives and Scope

Our audit objectives were:

- To assess the adequacy of the Texas Education Agency's monitoring processes

- To review the Texas Education Agency's statewide data collection and reporting process to determine if the information provides timely, reliable, and useful information

- To determine what accountability system controls are in place to adequately safeguard the state and federal resources used for public education

The scope of this audit was to evaluate the Agency's financial and student performance accountability systems used to monitor public education in Texas. It did not address processes or controls at the school district level.

Financial Accountability Systems Are Not Used Effectively to Monitor Districts

The Agency's financial accountability systems are not used effectively to ensure that the more than $10 billion in state and federal funds are spent appropriately. (See Figure 4.) We identified $160 million in state funds which districts did not spend on direct program services as required in 1994. The Agency is responsible for monitoring state and federal program funds used by school districts. When financial accountability systems are not used effectively, the Agency risks:

- Inappropriate use of funds
- Not achieving desired outcomes
- Loss of federal funds
- Deficit spending

Figure 4

Public Education Funding Breakdown

Program	(In Billions)		
	1994	1995	1996
Federal Programs	$ 1.5	$ 1.6	$ 1.5
State Program Funds	$ 7.4	$ 7.6	$ 8.5
Total	$ 8.9	$ 9.2	$10.0

The Agency does not effectively use the extensive quantities of data contained in its financial accountability systems. These systems consist of numerous data collections such as the Public Education Information Management System (PEIMS), annual financial reports, and state funding allotment data. Currently, the Agency performs desk audits of district financial expenditure data for the administrative cost ratio review and an analysis of district fund balance amounts. However, trend, ratio, peer group, and other data analysis techniques are not performed across various data collection systems. This reduces the Agency's ability to obtain a comprehensive financial picture at the district level. As a result, the Agency cannot ensure that funds are spent appropriately, and that students receive the intended benefits.

Specifically, the Agency does not use its financial accountability system information to determine if:

- Districts spent their entire allotment amount
- District expenditures were for direct program services
- District expenditures were appropriate and reasonable

Additionally, the Agency does not penalize or sanction districts who are not spending state program funds appropriately. Districts should be held accountable for spending program funds on allowable costs, if not, sanctions or penalties should be imposed. If districts do not need the program funds to achieve desired outcomes, then the funds should be returned to the State.

The Agency relies on desk reviews of district independent audits to monitor program funds. However, these desk reviews are not designed to ensure that program funds are spent appropriately. In addition, the independent auditors at the district level do not review state Foundation School Program funds for appropriateness or reasonableness.

The Agency has not provided written, current and updated guidelines for Foundation School Programs to districts. Without specific criteria of allowable and acceptable program expenditures, the Agency cannot consistently determine whether districts have expended program funds appropriately. Lack of specific, detailed criteria also results in inconsistent guidance and monitoring of expenditures and hampers the Agency's ability to recover funds or levy sanctions.

Recently, the Agency reorganized, placing on-site program monitoring and program support in separate divisions. However, the roles and responsibilities have not been clearly identified for these divisions. For example, the responsibilities of providing district guidance and performing financial data analysis of district expenditures have not been assigned. In addition, the responsibility for monitoring the Compensatory Education program has not been included within either the on-site monitoring or program support divisions.

During 1994 and 1995, the Agency completely revised its *Financial Accounting Manual*, resulting in significant reporting and accounting changes for school districts effective for the 1997 school year. These changes should increase the districts' ability to more accurately report direct program expenditures while improving the Agency's ability to more accurately reflect the statewide cost of programs. The results of the new *Financial Accountability Resource Guide* will not be determined until the 1997 actual data expenditures are submitted to the Agency in early 1998.

Prior to 1995, the Agency's process for determining district compliance with direct program expenditure requirements consisted of reviewing the Mandated Program Schedule contained in the districts' annual financial reports. Problems and inadequacies identified with the mandated schedule resulted in the Agency's discontinuance of it for the 1995 school year. The Agency has not yet finalized its processes and procedures for identifying compliance with state program expenditure requirements for the 1995 or 1996 school years.

The impact of the 1994 data continues to exist with the Agency's current processes and procedures. Information contained in the Agency's financial accountability systems indicated that in 1994, $160 million of program funds were not spent on direct program expenditures in the following programs:

- Compensatory Education
- Bilingual Education
- Special Education
- Career and Technology

These state and federal programs were established to help support specific student populations in achieving desired outcomes. Funding for these programs is to be used to supplement the basic education program funds. The Texas Education Code requires districts to spend at least 85 percent of these program funds on direct program services. Instead, these funds were spent on excess indirect cost charges, inappropriate expenditures, and in some instances not reported as being spent on program expenditures at all. (See Figure 2 in the Executive Summary for details.)

•   **Compensatory Education** - Districts did not spend $49 million on direct program services of the $792.5 million in Foundation School Program Compensatory Education funds during the 1994 school year. (See Figure 5.)

Direct program expenditures of compensatory education funds would include expenditures for accelerated instruction provided to students at risk of dropping out of school. At-risk students include those not passing state assessments such as the Texas Assessment of Academic Skills (TAAS) test, those not achieving successful grade level performance, and teenage parents.

Figure 5

Foundation School Program Compensatory Education
($792.5 Million Allotment)

Funds <u>must</u> be used in providing:
    Compensatory education and Accelerated
    instructional services

Funds <u>shall only</u> be expended to:
    Improve and enhance programs and services
    funded under the regular education program

Districts <u>must</u> account for the expenditure of state funds:
    By program and by campus under existing agency
    reporting and auditing procedures

Source: Texas Education Code

Of the 357 districts not expending $49 million for direct program services:

-    Five districts spent less than 10 percent ($123,475 of $2.4 million) of their allotments on direct expenditure items while the percent of students passing the TAAS test at these districts ranged from 33.4 to 62.4 percent.

-    263 districts spent $16.3 million of Compensatory Education program funds on student and teacher desks, even though the Texas Education Code states that Compensatory Education program expenditures shall only be expended to improve and enhance the regular education program. Basic student furniture and instructional supplies should be provided by the regular education program funds.

Of the 263 districts, 24 districts each spent from $100,000 to $2.2 million (ranging from five to 65 percent) of district allotment expenditures not directly on Compensatory Education. These 24 districts spent a total of $12.6 million of the $16.3 million on student

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desks. Sixteen of the 24 districts had 31.7 to 49.3 percent of their students passing the TAAS test.

The Agency sends letters to those districts not expending 85 percent of Compensatory Education program funds. Although these letters specifically mention possible downward adjustments to the district's future allotments, these sanctions have not been levied. For example, Agency records indicate the following situations with no penalties or sanctions:

- Recurring problems at one district regarding failure to expend Compensatory Education allotments ($3.1 million unexpended for one year)

- Questioned costs of one district's Compensatory Education funds which were not recovered ($142,000)

- Functional furniture dismantled and scrapped for salvage, then replaced with furniture purchased by Compensatory Education funds ($100,000)

• **Bilingual Education** - Districts did not spend $43 million of the $84.8 million in Foundation School Program Bilingual Education funds on direct program services during the 1994 school year.

Figure 6

Foundation School Program Bilingual Funds
($84.8 Million Allotment)

May be used only for:
• Salary supplements for teachers
• Program and student evaluations
• Instructional materials and equipment
• Staff development
• Supplemental staff expenses
• Other supplies for quality instruction

Source: Texas Education Code

A total of 505 districts did not spend $42.1 million of the $84.8 million in Foundation School Program Bilingual Education funds on allowable services for the 1994 school year. These funds were used to fund 100 percent of teacher salaries. Bilingual funds are to be used for teacher salary supplements, not entire teacher salaries. One hundred fifty-seven districts charged the total salaries for 1,376 teachers to the Bilingual program. (See Figure 6.)

Additionally, 151 districts, which received $1.1 million in Bilingual Education funds, did not report any Bilingual program expenditures.

• **Special Education** - Districts did not spend $64 million of the $1.2 billion in Special Education Foundation School Program funds on direct program expenditures during the 1994 school year. (See Figure 7 for details on allowable direct program expenditures.)

Figure 7

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Foundation School Program Special Education Funds
              ($1.152 Billion Allotment)

Must be used for services to children with disabilities and may include:
•    Instruction in the regular classroom
•    Instruction through special teaching
•    Instruction through contracts
•    Supplemented by the provision of related services
     (Developmental, corrective, supportive, or evaluative)

Source:  Texas Education Code
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A total of 604 districts, which received $366 million in Special Education program funds, did not spend 85 percent of their allotment on direct program services. Additionally, of these districts:

- 536 districts did not report direct program expenditures of $42.3 million

- Districts spent $22 million of the direct portion of their allotment on unallowable costs.

- Five districts spent less than one percent on direct program expenditures. Direct expenditures for these districts ranged between $28 and $4,620. However, they should have ranged between $394,000 and $1,228,000 for these five districts.

Figure 8

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Foundation School Program Career and Technology Education
Funds
                ($350.9 Million Allotment)

Must be used in providing Career and Technology education
programs which comply with federal law:
•    In grades 9-12
•    In grades 7-12 for students with disabilities

Each public school student shall master the basic skills and
knowledge necessary for:
•    Managing the dual roles of family member and wage earner
•    Gaining entry-level employment in a high-skill, high-wage job
•    Continuing the student's education at the post-secondary
     level

Source:  Texas Education Code
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• **Career and Technology**- Districts did not spend $4.2 million of the $350.9 million in Foundation School Program Career and Technology funds on direct program costs for fiscal year 1994. (See Figure 8 for allowable direct program expenditures.)

- 156 districts did not report expenditures for $3.4 million of the Career and Technology funds.

- 32 districts spent $800,000 of the direct portion of their allotment on unallowable costs.

- **Gifted and Talented Program** - The Agency does not have procedures in place to determine whether districts are spending the $52 million in Foundation School Program Gifted and Talented funds appropriately and reasonably. Additionally, the Agency does not have performance measures in place to evaluate the effectiveness of the gifted and talented programs.

- **Federal Programs** - The Agency receives and approves grant applications, provides expenditure guidelines, and performs desk reviews of district audits for the $1.5 billion in federal program funds. The Agency does not perform timely follow-up visits. Federal requirements mandate that the Agency perform follow-up visits for districts not complying with program guidelines. Additionally, timely follow-up visits provide more immediate feedback to districts to address and correct identified problems.

Recommendations:

In order to enable the Agency to provide consistency in guidance and monitoring, to reduce the risk of inappropriate use of funds, and to comply with state and federal requirements, the Agency should:

- Clarify divisional roles and responsibilities for monitoring programs

- Provide specific, detailed policies and guidance for appropriate use of state financial resources

- Develop standardized procedures for reviewing district compliance with allotment requirements

- Include monitoring of all state and federal funds in its data analysis process

- Perform trends, ratio, peer group, and other data analysis techniques on the financial expenditure data

- Establish and impose penalties and sanctions for districts not complying with state program requirements

- Perform timely follow-up visits

Management's Response:

Management agrees that data collected through the Public Education Information Management System (PEIMS) needs to be used more effectively to monitor school districts. Furthermore, management agrees with the recommendations for clarifying divisional roles and responsibilities for reviewing data, development of standardized procedures for reviewing data, analyzing data in all state and federal funds,

performing various types of techniques in data analysis and performing timely follow-up visits.

It is recognized that more efficient use of PEIMS data is impeded by the lack of an integrated information system within the Agency. The Agency is actively working toward such a system and many of those initiatives are detailed in the management response to section 4a of this report.

The Agency also recognizes the importance of ensuring compliance with all rules, laws and regulations. However, the Texas Education Code gives locally elected governing boards broad discretion to determine the appropriate and reasonable use of school funds. The broad discretion in the use of funds by local governing bodies, while ensuring maximum flexibility in the design of local educational programs which focus on improved student performance, may at times compromise strict adherence to compliance standards.

Certain questionable uses of funds cited in this report may reflect reporting discrepancies; these procedures are all too often not clearly explained in Agency guidelines. Management agrees that the clarification of these guidelines to prevent use of state funds contrary to legislative intent is a top priority. Districts must be held accountable if state Foundation School Program funds are used for activities, goods and services that clearly will not contribute to gains in academic performance, regardless of local control considerations.

Management agrees that more school districts may have been subject to sanctions for improper use of Foundation funds if financial accountability data had been used more effectively. It should be noted that the Agency has applied and continues to apply sanctions to school districts for various kinds of noncompliance, including noncompliance with educational program requirements. In addition, sanctions such as requiring federal funds to be refunded have been applied by the Agency's federal program staff for violation of federal program requirements. These sanctions were the result of Agency on-site monitoring and investigative activities, desk audits of school district data and review of information resulting from annual audits conducted by independent auditors. Other sanctions involve the appointment of a master or monitor in response to questionable financial management practices in the district. They may also involve the lowering of a district's accreditation status.

Section 2:

Student Dropout Rate Is More than Double the Reported Rate for 1994

The student dropout rate is more than double the reported rate for 1994. The dropout rate is estimated at 5.7 percent for fiscal year 1994 rather than the 2.6 percent reported by the Agency. (See Figure 9.) This is significantly more than the targeted 3.9 percent set by the Legislature for 1994. See Figure 10 for targeted annual dropout rates.

Figure 9

1994 Student Dropout Rate
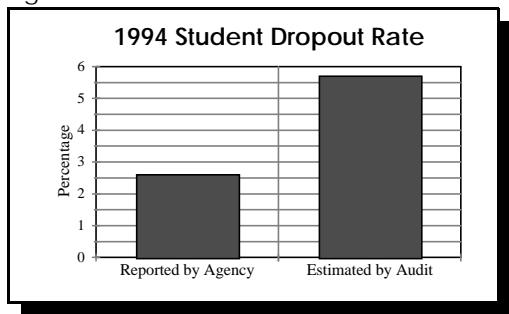
School districts self-report student attendance and dropout data to the Agency. However, the Agency's current process for collecting, reporting, and analyzing the student attendance and dropout data does not verify the accuracy of this data. Without a comprehensive method in place to account for all students enrolled from one year to the next, there is minimal assurance that the dropout rate and/or student attendance information is accurate and complete.

The dropout rate is an important measure of performance for school districts. The dropout rate is one of the base indicators to determine district and campus accountability ratings. District and campus accountability ratings are used by legislators, state agencies, educators, and citizens to assess the effectiveness of the Texas public education system.

Figure 10

**Texas Education Agency
Targeted Annual Dropout Rates**

1994	1995	1996	1997	2000
3.9%	3.9%	3.25%	3.2%	1.0%

The Agency's number of reported student dropouts was significantly understated. We determined through statistical sampling that there were more than 87,000 dropouts during the 1993-1994 period, whereas the Agency reported 40,211 students as dropouts.

We compared 1994 enrollment with the prior year and found that more than 113,000 students enrolled in 1993 were not accounted for in 1994. These students were not reported as enrolled, graduated, or as dropouts.

Our analysis determined 42 percent of the 113,000 students should have been reported as 1994 dropouts. Figure 11 illustrates what happened to the 113,000 students.

Figure 11

What Happened to the 113,000 Students?

Should have been reported as 1994 dropouts	42.0 %
Should have been reported as 1995 dropouts	9.7 %
Reported as 1995 dropouts	5.6 %
Written requests for out-of-state transfers	17.4 %
Transferred to Private school	5.6 %
Enrolled but not reported	5.2 %
Graduated/Obtained GED--not reported	4.2 %
Home School	2.4 %
Parent Statement - Moving Out of State	2.1 %
Foreign Exchange Student	1.0 %
Deceased	1.0 %
Miscellaneous	
(Migrant students, prison, re-entered, etc.)	3.8 %
Total	100.0 %

We also noted that some districts did not follow the dropout definition. For example:

• Districts did not count students as dropouts because they were planning to enroll in a Graduate Equivalency Diploma (GED) program, but could not provide documentation showing that students were enrolled and regularly attending a GED program.

• Districts did not count students as dropouts because they were planning to enroll in another school, but could not provide documentation showing that students were enrolled in another school or approved program. No request for records was received from another district, no document or statement was signed

by a parent, nor was there verification through enrollment data of enrollment in another school.

Recommendations:

In order to ensure the accuracy of information, the Agency should change its procedures for collecting, reporting, and analyzing student attendance and dropout data. For example, the Agency should:

•   Include, at the district level, an exception report in the edit-and-report process. The exception report will account for every student who attended the prior year but is not included in current-year enrollment.

•   Enhance and enforce guidelines for verifying and documenting the continuing education and status of withdrawn students. For example, districts should be required to receive and retain written records requests for transferring students.

•   Test the accuracy of dropout data as part of its data analysis process. The information obtained from the data analysis should be included as a factor in the Agency's risk analysis.

•   Perform random testing of exceptions to verify the accuracy of district information. Additionally, when conducting on-site monitoring visits, the Agency should examine district documentation regarding the status of students included on the edit exception reports.

Management's Response:

Management agrees with these findings. Concern about the validity of self-reported dropout data has led the Agency to develop an accountability system safeguard over the past year to identify campuses with high percentages of students withdrawing but not reported as dropouts. The Agency has undertaken an initiative to begin collecting withdrawal data through PEIMS. This data collection would encompass the exception reporting recommended in the audit findings. Just as the current dropout recovery system identifies students as dropouts who have re-enrolled, the expanded system will identify students reported as transfers who have actually dropped out of school.

The auditor's recommendation that Agency guidelines for documentation of the status of withdrawn students be enhanced to require written documentation will be taken under consideration. Currently, districts are not always able to acquire the preferred form of documentation for a number of reasons, including confidentiality standards of other state and county agencies.

The analysis of unreported dropouts conducted by the auditor was based on a review of documentation submitted by districts for a sample of students. The description of the sampling technique used is found in the appendix of this report.

The Agency does conduct an annual audit of attendance data used in the dropout rate calculation. Attendance data are the basis upon which Foundation School Program funds are distributed to districts and are audited by the School Financial Audits Division. This audit is conducted after the dropout rates are computed.

Section 3:
On-Site Monitoring Visits Have Not Been Completed

The Agency has not completed its cyclical on-site monitoring visits for the Bilingual program at 860 districts. As a result, the Agency is not in compliance with the Texas Education Code or federal court order requirements for cyclical visits. In addition, the Agency has not visited 205 districts for the Special Education program in eight or more years.

On-site monitoring visits provide verification of self reported student performance and financial data. Nonperformance of these monitoring visits reduces assurance that reported data is accurate and that funds are spent appropriately.

Cyclical on-site monitoring visits are not an efficient and effective way to monitor school districts. However, the Agency is required to perform these cyclical visits until legislation is changed. Performing cyclical visits for more than 1,000 school districts requires the dedication of a large number of Agency resources. A risk-based approach for district monitoring would target coverage to those districts with the most risk, thus resulting in a more efficient and effective monitoring process.

In addition, the Agency sends separate teams to perform on-site monitoring visits for each program. This results in inefficiencies in that Agency representatives can visit districts six to nine times during a school year. A more coordinated review team approach covering all program areas within a single team would benefit both the Agency and school districts.

The Agency relied on its implementation of the Results Based Monitoring (RBM) System to provide school district monitoring. The RBM system was piloted over three years to a limited number of districts with voluntary district participation. This resulted in the Agency visiting only a small number of districts and only visiting districts which requested a visit. (See Section 4c for details on the RBM system.)

- **Bilingual Education Program Visits** - The Agency performed only 186 Bilingual program monitoring visits (18 percent) for the three year period from 1991 to 1994. In addition, 202 districts have not been visited in six years or more. The Agency is required by both the Texas Education Code

and a federal court order to perform on-site monitoring visits at all districts at least once every three years.

As a result, the Agency is not in compliance with the Texas Education Code or federal court order requirements for cyclical visits. Nonperformance of these monitoring visits reduces the Agency's ability to ensure that Bilingual Education Program funds are spent appropriately, that districts are properly classifying students, and that districts are providing equal educational opportunities for bilingual students.

• **Special Education Program Visits** - The Agency has not visited 205 districts for its Special Education program in eight or more years. These 205 districts are included in a group of 541 districts which have received only one visit in the ten-year span from 1986-1987 through 1995-1996. An additional three districts have not been visited during this ten-year span.

Additionally, the Agency's monitoring visits have not consistently included financial indicators. Unless financial indicators are included as part of a comprehensive monitoring visit, the Agency cannot rely on these visits to ensure that state and federal funds are used appropriately. These comprehensive monitoring visits are especially critical for ensuring that state program funds are spent appropriately. (See Section 1 for details regarding Financial Accountability Systems and state program funds.) Performance of comprehensive monitoring visits is critical when compensating controls do not exist.

Inconsistencies with the Agency's state plan agreements raise compliance issues with federal requirements. The Agency's 1994-1996 Special Education State Plan agreement for monitoring federal funds continued to reference the five year monitoring cycle although this cyclical requirement was deleted by the Texas 73rd Legislature. In addition, the Agency had moved to the Results Based Monitoring System, but it was not referenced until the 1994 portion of the State Plan.

The Agency performed on-site monitoring visits for an additional 266 districts. Per the Texas Senate Committee, the focus of these visits was to identify students living in residential care facilities and nursing homes. Since these visits did not address financial or performance indicators, they were not included in the calculation of on-site monitoring visits.

• **Non-Public School Visits** - The Agency does not perform on-site financial monitoring visits of Non-Public Schools (NPS) serving Special Education students. No procedures exist for monitoring the appropriateness or reasonableness of the $15.8 million distributed to these NPS over the past two years.

Currently the Agency's primary interaction with these NPS is in the creation of an approved provider list for district use in contracting for services. This interaction entails on-site review of the NPS's educational programs, curriculum, personnel qualifications, and implementation of the Individualized Education Program. The review process does not consider the appropriate use of state and federal funds in subsequent years.

Although districts individually contract with the NPS, the Agency has responsibility for ensuring that the funds are being used to support Special Education students. The Agency has comprehensive information regarding the number of children and dollars each NPS receives. Without a process for monitoring these facilities, there is minimal assurance that funds are used appropriately. For example:

> One facility, which has received $9 million during fiscal years 1994 and 1995, (57 percent of the $15.8 million distributed to these facilities) had questionable expenditures uncovered during another review performed by the State Auditor's Office. Although the NPS receives funds from several sources, 65 percent of its funding comes from 43 school districts and one regional education service center. During these fiscal years, the Agency did not perform a comprehensive on-site financial monitoring visit.

Recommendations:

In order to ensure funds are spent appropriately, federal funds are continued, students are properly classified, and districts are providing educational opportunities for all students, the Agency should:

• Strive to change state requirements for performing cyclical on-site visits to performing risk-based on-site visits. Risk assessments should be performed using financial, performance, and compliance indicators to assess all entities receiving state and federal funds. The entities with the highest degree of overall risk should be those earmarked for on-site monitoring visits during the fiscal period. Indicators could consist of the following items:

- Financial indicators:
  ‣ Total dollar amount of district allotments
  ‣ Problems noted in prior years
  ‣ Trends, peer groups, and ratios for expenditures
  ‣ Expenditures reported for unallowable amounts/items

- Performance indicators
  ‣ Accreditation rating
  ‣ Dropout rate
  ‣ TAAS scores

- ‣ Trends in student performance
- - Compliance indicators
  - ‣ Types of problems in prior years
  - ‣ State/federal critical program requirements

- - Comprehensive assessment of the district overall
  - ‣ Size of district (student enrollment, number of staff)
  - ‣ Student demographics
  - ‣ Prior history including results of prior visits
  - ‣ Number and type of complaints received

- • Perform its on-site cyclical visits in a timely manner, until requirements are changed

- • Develop procedures for monitoring the Non-Public Schools for appropriateness and reasonableness of expenditures. Additionally, enhance the process for placing facilities on the approved provider list.

- • Develop procedures to ensure that state and federal funds are spent appropriately and meet federal requirements.

- • Consider formation of a Coordinated Compliance Review Team to cover all program compliance areas, including financial compliance. As a result, Agency representatives would enter a district only once every three to four years, rather than possibly six to nine times during one year.

  The Coordinated Compliance Review Team concept would provide benefits to both the Agency and the district. One comprehensive report would provide information on problems and successes across all programs within the district. In addition, the Agency's visitation schedule would become more streamlined and efficient while disruptions to the district would be minimized.

Management's Response:

Management agrees that the effectiveness of past monitoring visit processes is subject to question, particularly in regards to monitoring for fiscal compliance. Even when coordinated monitoring efforts were in effect, the fiscal component of those efforts was often deficient. And while management may take issue with certain aspects of cyclical monitoring and its related requirements, the evidence suggests that overall monitoring efforts were less than satisfactory in the fiscal arena. It should be noted, however, that when the Agency ceased to operate under a strict five year cyclical on-site monitoring schedule, it did so with the knowledge and approval of the US Department of Education and that the Agency was in full compliance with state law and federal regulations for Special Education.

Positive steps are being taken to move towards a risk-based monitoring system which will include a fiscal component. It is recognized that often the appropriate and

reasonable expenditure of funds can only be determined through on-site auditing visits. It should also be recognized, however, that monitoring visits are labor intensive. Under the downsizing of this Agency, for example, conscientious monitoring efforts in certain program areas often suffered due to a shortage of personnel.

In accordance with federal and state requirements, the Agency will continue to strive for a truly coordinated monitoring approach.

Non-public school facilities are private providers selected and contracted directly by school districts and these contracts are funded in part by the Agency. These relationships warrant increased Agency oversight in the expenditure of Special Education funds. These facilities and school districts are now being put on notice as to fiscal accounting expectations, and an on-going audit investigation is verifying the expenditure of funds by the districts for the services provided by these facilities.

Section 4:
Inefficient Use of Resources Hinders Monitoring Function

Poor communication, reliance on manual processes, and lack of streamlined internal procedures hinders the Agency's ability to monitor school districts. Due to the magnitude of the Agency's oversight responsibilities, effective communication and streamlining of processes and procedures are imperative to permit an efficient and effective monitoring function.

The decentralized organizational structure has contributed to the lack of communication and coordination across divisional lines. Divisions within the Agency are focused on their individual programs and responsibilities. In addition, difficulties in obtaining information from centralized information databases have resulted in the creation of ad hoc systems throughout the Agency. Consequently, information is not shared across programs and divisions, causing duplication of effort and incomplete information for decision making purposes.

Reliance on manual reports and processes has resulted in inefficiencies, inaccuracies, and incomplete records. The Agency's lack of streamlined internal processes and procedures for grant applications, document tracking, and visitation schedules result in an inefficient use of resources and places an unnecessary burden on districts.

Section 4-A:
Districts Provide Data to More than 70 Information Systems

Districts provide data to more than 70 information systems within the Agency. Some of this information is duplicated in several of the systems and some is not used by Agency staff. This results in an undue burden on the districts and in conflicting and misleading data reported to the Agency. In addition, this increases the risk that the Agency provides inaccurate information to decisionmakers and users.

The Agency has not identified all of its information systems. As of December 1995 the Information Systems (IS) Division had identified 73 automated systems that it supports. We identified 114 automated systems across the Agency. Therefore, the remaining 41 automated systems were not identified by the Agency and are operating without IS support. The Agency needs to identify and maintain a list of all information systems that divisions are using in order to ensure the security of information is intact and eliminate duplication of effort both internally and externally. Of the 114 automated systems, more than 40 collect information within the Agency only.

The majority of the automated information systems are in non-compatible formats which hinders the ability to use and access the information. Automated information systems include:

- Public Education Information Management System (PEIMS)
- Academic Excellence Indicator System (AEIS)
- Results Based Monitoring (RBM)
- Personal Identification Database (PID)
- Standard Application System (SAS)

PEIMS data is difficult to access. Access to PEIMS data requires an extensive technical knowledge of either the Statistical Application Software or Query Management Facility. As a result, the internal users have created ad hoc systems to avoid PEIMS access and incompatibility problems.

Additionally, the Agency's inconsistency with the legal definition of PEIMS hinders its ability to comply with education code requirements. PEIMS is defined in the Texas Education Code as a global collection of public education information including financial, demographic, and student performance data. This data is collected and maintained in various systems such as:

- Financial accountability information contained in PEIMS
- Financial grant application information maintained in SAS
- Student performance data included in PEIMS and AEIS
- Student and staff demographic information contained in PID
- Student performance data included in RBM

However, the Agency's current terminology associated with PEIMS refers to a single automated data collection system. Although the Agency officially adopted a definition of PEIMS aligned with the Education code requirements, internally, the term PEIMS continues to refer to the automated data collection system.

The Agency also has 20 manual systems in place. These systems require districts to submit manual forms and reports to the Agency. Reviewing or re-entering six to twelve pages of information from 1,044 districts is burdensome to the Agency. In addition, some of the information duplicates information contained in automated systems.

Recommendations:

To improve the accuracy of data reported and decrease the burden on school districts, the Agency should:

•   Develop procedures to ensure that all information systems are accounted for and new systems are recognized. This would include an updatable, comprehensive list of its automated systems.

•   Determine its information needs and ensure that the information is being adequately and efficiently collected and maintained

•   Perform annual reviews of data elements to eliminate unnecessary data collection

•   Create a data warehouse to reduce data access problems

•   Change the name of the Agency's automated data collection currently known as PEIMS to eliminate confusing the system with the broad legal reference to public education information. This will assist the Agency in changing the internal definition of the PEIMS automated system to align it with the definition included in the Texas Education Code.

•   Reduce its reliance on manual systems, reports, and processes. Prior to automating a manual process, the Agency should review the entire process focusing on the following steps:

    ‣   Elimination of unnecessary, irrelevant, and outdated information
    ‣   Consolidation of the remaining information and procedures
    ‣   Simplification of the process, procedures, and information

Management's Response:

Management agrees with the findings and the recommendations. In most cases, activities and projects are underway which address concerns noted in the findings. In September 1996, the Agency will charter the Information Systems Advisory Committee (ISAC), which will become the Agency policy making body governing information technology across the Agency. By June 1997, policies will be adopted to ensure a consistent information development process across the Agency, appropriate use of the enterprise data model, proper cataloging and documentation of all Agency systems, and both initial and ongoing justification of information collections from school districts.

The Agency will continue to work on the Commissioner's Plan for Information Access, designed to make Agency data available to interested parties in the most effective way possible. The Agency is exploring options for such access, including creating a data warehouse available through the Internet. The Agency Legislative

Appropriations Request will contain an Exceptional Item requesting funds specifically for this project.

The Agency is evolving its current practice and nomenclature to support the PEIMS definition contained in SB 1. The Public Information Access System, being designed as part of the Commissioner's Plan for Information Access, is the first major step in that effort.

The Agency will continue its efforts to streamline Agency operations and reduce its dependence upon manual systems. A business consultancy function has been established within the Information Systems Division to assist in re-engineering and process simplification efforts across the Agency.

Section 4-B:

Public Education Information Management System (PEIMS) Needs Improvement

The ownership and management of PEIMS is not clearly defined and established. In addition, a conflict of interest exists in the advisory committee overseeing the policies and recommendations regarding the statewide data collection of student performance and financial accountability information. Currently, annual reviews of data elements are not performed, data definitions are inconsistent, and the editing process does not ensure that data collections are accurate.

PEIMS Ownership and Management - Prior to 1996, responsibility for PEIMS data processing was fragmented into seven teams across the Agency. Information was not shared, resulting in duplication of effort and lack of coordination and communication across the teams. No single team had comprehensive information regarding the PEIMS process. As a result, the Agency had not:

- Documented the PEIMS process in its entirety
- Developed a process for investigating and correcting PEIMS errors
- Considered the needs of internal Agency users regarding data, edits, and data collecting methods
- Clearly defined the educational service centers' responsibility for PEIMS processing

The above issues have not been completely addressed. However, the Agency has made the following progress:

- The PEIMS responsibilities have been re-organized into four teams under the Information Systems Division

- A quality assurance team has been formed and has begun documenting the PEIMS process and tracking types of errors

- A PEIMS coordinator has been appointed for the Agency.

PEIMS ownership and management are not clearly defined or established. The Policy Committee on Public Education Information was established in 1991 as an advisory committee to assist the Agency in addressing policy issues and public education information needs. The Agency relies on this committee to set policy and make decisions. The Agency needs to establish ownership and management of PEIMS for policy decisions and use the committee in an advisory capacity.

Additionally, a conflict of interest exists within the current Policy Committee membership. One recently appointed member is a private consultant and represents several of the large district members of the advisory committee. This permits the larger districts to have an additional vote in the formation of policies and recommendations. In addition, this individual can obtain personal gain from the policies and recommendations regarding data collections.

Data Elements and Edits - The Agency has not consistently used data definitions and terminology. Various divisions across the Agency use the same data elements to express different definitions and values. The timing of data collections also affects the value of a data element, but the time period is not consistently identified. The Agency does not have a process to ensure consistency of data definitions and values. Therefore, data results vary widely depending upon the definition, value, and time period used which cause confusion across divisions and reports.

The elements contained in the automated data collection system have not been reviewed since 1991. In addition, data collected across the Agency has not been reviewed. The Commissioner of Education is required to annually review PEIMS and repeal or amend rules requiring the collection of unnecessary information. As a result of this lack of review, the Agency cannot ensure that unnecessary data collections do not exist.

The PEIMS editing process does not ensure that data is accurate and complete. With the existing edit controls over the editor, districts can submit inaccurate data. Although the data collection process and data have improved since implementation in the late 1980s, additional controls will help improve the data collection process. The following conditions were identified:

•   Reasonableness edits have not been effectively programmed and longitudinal edits are not performed, resulting in erroneous data arriving at the Agency and being included in the PEIMS database.

•   Re-classification of edits and elimination of redundant edits have not been evaluated.

•   No trend analysis of PEIMS errors is performed to identify trends in districts submissions, the contents of the Agency's database, and software (whether provided by the Agency, district, service center, or a private vendor).

Recommendations:

To improve and enhance the PEIMS data collection process and the accuracy of the data, the Agency should:

- Form an internal coordination committee for streamlining data collection needs throughout the various divisions within the Agency and providing a comprehensive overview of the PEIMS process.

- Clarify the roles of advisory committees.

- Eliminate conflicts of interest on advisory committees to ensure objectivity and independence.

- Perform annual reviews of data elements to eliminate unnecessary data collection.

- Evaluate and improve the edit process.

- Eliminate the duplication of effort involved in performing the same edits.

- Provide training to districts reporting inaccurate data.

Management's Response:

Management agrees with the findings and the recommendations. In most cases, activities and projects are underway which address concerns noted in the findings. The Information Planning Committee (IPC) will be chartered in September of 1996. The IPC will recommend policy by April 1997 to ensure an ongoing examination of data collection needs and the most effective methods for those collections.

Advisory committee roles will be clarified. In particular, the role of the Policy Committee on Public Education Information will be examined and updated by March 1997.

Annual reviews of data collections, including justification for individual data elements, will be included in Agency policy by June 1997. These annual reviews will be instituted after ongoing sunset reviews of Agency data collection are completed over the next year.

The Agency Quality Assurance Team has recommended several projects to address current problems with the PEIMS editing process. Those projects are currently being scheduled for implementation. In addition, the Agency is collecting and documenting major incidents of inaccurate data submission. Those incidents are referred to appropriate Agency units for potential resolution. In addition, the Information Systems Division will use this information as input into the design of additional reasonableness and longitudinal data elements.

Figure 12

Results Based Monitoring (RBM) System Is Duplicative, Burdensome, and Costly

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┌─────────────────────────────────────────┐
│ Results Based Monitoring (RBM) System    │
│                                           │
│ RBM was developed as a monitoring system  │
│ for assessing student performance and     │
│ compliance in special programs at the     │
│ local level.  RBM is organized into five  │
│ main components:                          │
│                                           │
│ Desk Indicator Review                     │
│         Consists of performance and       │
│         compliance indicators from Agency │
│         data                              │
│ Local Indicator Review                    │
│         Consists of local performance and │
│         compliance indicators             │
│ Summary of Findings                       │
│         Reports the local assessment      │
│         results and provides the          │
│         performance and compliance        │
│         ratings                           │
│ Data Verification Visits                  │
│         Are abbreviated visits designed   │
│         to provide assurance of data      │
│         accuracy                          │
│ Consultative Focused Visits               │
│         Are conducted by Agency           │
│         representatives upon the          │
│         recommendation of Agency staff    │
│         or the request of a local         │
│         education agency                  │
└─────────────────────────────────────────┘
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The Results Based Monitoring (RBM) system, developed to assess school district performance, duplicates information already contained in existing accountability systems. (See Figure 12.) Systems such as PEIMS (Public Education Information Management System) and AEIS (Academic Excellence Indicators System) are used to monitor student performance. The RBM system provides little, if any, new information, and does so at a high cost.

The RBM system was first implemented as a pilot in 1993 with voluntary district participation. Pilot implementation and voluntary district participation has continued for three years. Only three of the districts involved in the first pilot year continued using RBM during the second year.

None of the districts involved in the first and second pilot years continued using RBM during the benchmark year (third year). Districts cited the numerous and burdensome manual forms as the primary reason for not continuing with the RBM system.

The Agency has discontinued the RBM system pilot and does not plan to fully implement the system in its current state. After the Agency's data verification visits were performed in the spring of 1996, the Agency officially discontinued its pilot of the RBM system.

Continuation of the RBM system would not have been cost effective, nor efficient at either the Agency or district level. Development and technical training costs on the RBM system were approximately $2 million to date. Pilot districts reported an average of $6,042 in costs associated with this system. One district reported a cost of $215,120 for using RBM.

Currently, a subset of the Accountability and Accreditation Division has been named the District Effectiveness and Compliance (DEC) Division to emphasize its focus on monitoring program effectiveness at the district level. The DEC Division personnel are currently using a new self-evaluation process. The Fall 1996 data verification

visits will use the same process as the Accreditation Division. The process is designed to focus on effective planning and decision making. Additionally, much of the paperwork burden for districts has been eliminated.

Several significant issues regarding the automated portion of the DEC process have not yet been resolved. For example, although the Agency has discontinued use of the RBM system, the DEC Division has not fully developed a process to be used in determining district performance and compliance indicators. In addition, the Agency has not performed a cost/benefit analysis to determine whether portions of the RBM system should be salvaged for the new DEC system.

Recommendation:

To improve and enhance the monitoring process for district program effectiveness, the Agency should:

•   Continue to modify its monitoring process.

•   Ensure that the adopted monitoring system provides new and useful
          information and is not a duplication of information contained in any existing
          systems prior to investing additional resources.

•   Consider the cost effectiveness of future program monitoring processes.

Management's Response:

Management agrees that the RBM system contained some deficiencies, and deemed them sufficient to warrant its discontinuance after the 1995-96 school year. It has been replaced by the District Effectiveness and Compliance system (DEC), as indicated in the report.

Section 4-D:
Fragmented and Inaccurate Record Keeping Hinders Monitoring

The Agency does not have a mechanism in place to adequately monitor complaints and efficiently share district performance results among the various divisions and with external users. Adequately monitoring complaints will enable the Agency to evaluate the number and type of complaints, ensure parental rights have been addressed, and assess the Agency's effectiveness in handling complaints. Sharing information will result in a decrease in duplication of effort, and potentially high-risk districts can receive the necessary Agency support and guidance in a more timely manner.

Our examination found a number of examples of inaccurate and duplicative record keeping by different divisions and program areas:

•   Agency policy calls for complaints to be routed to the Complaints Management Division where they are recorded, a course of action is determined, and a resolution is found. However, the Complaints Management Division cannot account for all complaints received by the Agency. Complaints are received and investigated within divisions before being routed to the Complaints Management Division. Some complaints are not routed to the Complaints Management Division for processing.

    Inconsistent definitions and terminology also hinder the accurate assessment of the number and type of complaints received. For example, the Agency reports approximately 1,900 formal complaints are received annually. However, the Agency also reports more than 26,000 complaints are annually investigated. The Agency does not clearly communicate that the 1,900 formal complaints represent written, signed complaints while the 26,000 complaints represent complaint resolution activities performed by Agency staff. The wide disparity in these amounts causes confusion and results in the Agency's inability to assess the number and type of complaints received and the Agency's efficiency and effectiveness in handling complaints.

    In addition, the Agency's process for handling complaints results in miscommunication of information to citizens and inaccurate documentation of resolutions. Citizens are not adequately informed of the district-level grievance process. Documentation in complaint files does not accurately reflect the results of investigations or handling of complaints and resolution dates are not always accurately recorded. As a result, the Agency cannot ensure that the parental rights and responsibilities have been adequately addressed as outlined in the Texas Education Code.

    Inaccurate and insufficient information is generated from the current automated tracking system used within the Complaints Management Division. The system limits the ability to calculate and generate information. As a result, information is calculated manually and results in errors.

•   The Accreditation staff determines problems with programs at the district level which contributed to poor TAAS scores. However, the Accreditation Division does not consistently communicate this information to the program divisions.

•   The Bilingual Education program staff re-enters data received from the School Financial Audit Division. This information is often updated inconsistently, contains errors, and is incomplete.

•   Special Education program monitoring visitation logs did not accurately reflect which districts had received monitoring visits.

Recommendations:

To improve the quality of information, minimize the duplication of effort, and provide comprehensive district information, the Agency should:

- Implement an automated system to track all monitoring visits and complaints. The system should readily identify the date that each district was monitored, which programs were reviewed, and the type of visit performed. The system should also identify the type and number of complaints received for each district and include the date resolved.

- Develop procedures for communicating complaint resolution information to districts. Proper grievance procedures should be provided to citizens to ensure that parental rights and responsibilities have been adequately addressed.

- Develop and maintain a centralized record keeping system. The system should have procedures for compiling information to ensure consistency, timeliness, and accuracy of data.

Management's Response:

Management agrees with the findings and the recommendations. A recent reorganization of the Agency has placed all monitoring functions under the same associate commissioner to facilitate Agency information exchange. In addition, such cross-division information sharing will become a focus of Agency staff development programs in the coming year.

The Complaints Management Division, now called Parent and School Services, has recently developed a procedure manual and video training tool to familiarize Agency staff, district personnel, and parents with the Agency complaints procedures, as well as the appropriate local grievance procedures. In addition, the revision of the Agency strategic plan will define consistent measures with which to gauge the division's performance.

Subsequent to this audit report, both Special Education and Accelerated Instruction are using the Integrated Financial Management System (IFMS). Automated tracking of complaints is incorporated into IFMS, which will eventually be used by all Agency program areas.

Grant Application Process is Untimely and Informal

The processing of federal grant applications is not performed in a timely manner. Although districts are required to provide many of these services regardless of the level of assistance provided, untimely notification to districts results in an undue constraint on local funds.

Figure 13

Results of Standard Application System Testing

Program	Average # of Days	Sample
Special Education	98 days	93% > 60 days
Career & Technology	83 days	80% > 60 days
Migrant Education	55 days	14 % > 60 days
Accelerated Instruction	46 days	17% > 60 days

The Agency relies on individual divisions to develop internal policies regarding grant funding applications and appropriateness of processing times. Internal policies of the four divisions tested indicated an informal target of 30 days for application processing.

Testing revealed average turn-around times for Migrant Education and Accelerated Instruction were 46 and 55 days, respectively. However, test work indicated average turn-around times for Special Education residential applications of 98 days and Career and Technology averaged 83 days. As a result, districts do not receive notice of grant awards in a timely manner.

The Agency has not developed written criteria for reviewing the federal grant funding applications. In addition, a lack of streamlined processes hinders the efficiency of application processing. For example, Agency personnel are not cross-trained which results in backlogs and delays when individuals are absent. Checklists are not used to facilitate and ensure consistency in application processing.

Recommendations:

To ensure consistency, facilitate cross-training, and streamline the application review process, the Agency should:

• Develop and document procedures and criteria for federal grant application reviews
• Develop a checklist for the federal grant application review process
• Implement an automated system to track all federal grant applications

Management's Response:

Management agrees with the findings and the recommendations. In addition to increasing the use of staff cross-training and checklists, the Agency is creating automated systems to track federal grants applications. An automated system will be implemented in the Career and Technology Division for FY 1997 applications.

Accelerated Instruction is piloting such a system in FY 1997, with full implementation by FY 1998.

Monitoring Reports Are Untimely

On-site program audit reports for two program areas (Child Nutrition and Bilingual Education) are not completed in a timely manner. Although the Agency is mandated by the Texas Education Code to provide districts with the results of the Bilingual Education visits within 30 days, our tests indicated an average turn-around of 93 days.

Figure 14

Audit Reports

Child Nutrition Program
Processing Ranged from 61-301 days
• 60 Days internal processing policy
• 100% total population > 60 days

Bilingual Education
Average 93 days
• Texas Education Code requires 30 day turn around
• 96% sample > 30 days

The Agency's internal processing policy for the Child Nutrition program reports is 60 days, but the turn-around time ranged from 61 to 301 days. As a result, districts are not provided information to address and correct identified problems in a timely manner.

Recommendations:

To ensure timeliness, facilitate cross-training, and comply with Texas Education Code requirements for the monitoring report process, the Agency should:

• Streamline its reporting process
• Cross-train employees to enable more than one person to review and sign reports

Management's Response:

Management agrees that there is room for improvement in the turnaround of monitoring reports. However, the turnaround times in the audit samples include delays attributable to requests for additional information from school districts which submitted incomplete applications. In addition, if district findings are such that a follow-up review is required, this will extend the time frame necessary for completion of the review, sometimes extending from one school year into another. The Agency is unaware of any denial of services resulting from such delays.

Bulletin 742 Is a Collection of Mismatched and Out-dated Forms

Bulletin 742 (Bulletin) in its current state is a mis-matched collection of agency forms, ad hoc surveys, applications, and business process forms to be completed by districts for internal and external purposes. The Bulletin is not an effective tool for districts to use because many of the forms are outdated prior to publication, many have vague instructions and no due dates, and some are not required to be returned to the Agency.

Bulletin 742 was first published in 1974 as a method for identifying, approving, and notifying all districts of anticipated manual data collection instruments for the coming year. It has since evolved into a 476 page document with an initial publication of 1,800 copies. Bulletin 742 is updated and mailed to districts and Educational Service Centers at a cost of more than $12,000 annually. Additional costs are incurred by individual divisions sending corrected forms to replace outdated forms.

The Agency's current sunset review committee has been charged with identifying and eliminating unnecessary forms. The Agency has eliminated 36 reports from the Bulletin. However, the responsibility for 25 of these reports will merely be transferred to other agencies. For example, although the Agency will no longer require information regarding teacher certification and proprietary schools, districts will still be required to report this information to the State.

Recommendations:

To ensure information is communicated efficiently and effectively to districts and to comply with the requirement to reduce the burden to districts, the Agency should:

- Continue reviewing the existing documents and reports contained in Bulletin 742.

- Expand the committee's charge to include review of the types of documents contained in the Bulletin.

- Consider alternative methods of distribution and collection of information currently contained in Bulletin 742. This information should be reviewed for clarity, statutory authority, and completeness prior to inclusion in the Bulletin.

- Develop a series of policy guides, similar to those included in the *Financial Accountability System Resource Guide*, for the purpose of communicating policy information needed at the district level, but not required to be collected by the Agency.

Management's Response:

Management agrees with the findings and the recommendations. In April 1996, an Agency operating procedure was adopted requiring all data collection outside of the PEIMS system to be subject to review by the TEA Data Approval Committee (TEADAC). As a result of the creation of TEADAC, Bulletin 742 has been under a sunset review for several months. TEADAC has reviewed 80 documents:

- *documents have been eliminated completely,*

- *26 documents related to responsibilities transferred to other state agencies will be excluded from future publication,*

- *5 documents have been combined or consolidated with other documents,*

- *21 documents have been determined to be business transaction documents and not actually data collections; they will be referenced as such in the new edition of Bulletin 742,*

- *17 documents have been approved, allowing continued data collection; many of these documents were approved on a temporary basis until automated systems can incorporate collection of the data.*

The size of the next edition of Bulletin 742 will be about 45 pages (compared to the 476 pages referenced in the audit report), cost substantially less, and have content which can be posted to the Agency world wide web site for Internet access.

Appendix 1:
Objectives, Scope, and Methodology

Objectives

The audit objectives were:

- To assess the adequacy of the Texas Education Agency's monitoring processes.

- To review the Texas Education Agency's statewide data collection and reporting process to determine if the information provides timely, reliable, and useful information.

- To determine what accountability system controls are in place to adequately safeguard the state and federal resources used for public education.

Scope

The scope of this audit was to evaluate the financial and student performance accountability systems used to monitor public education funds in Texas at the Agency level. It did not address processes or controls at the school district level.

The scope of this audit included consideration of the Agency's performance measures, management information systems, and policies and procedures. In addition, the scope included a review of communication and coordination between Agency divisions and also between the Agency and school districts.

Methodology

The methodology used on this audit consisted of gaining an understanding of the Agency's information systems, collecting information, reviewing documents, reviewing the major data collection and reporting systems, performing data analysis, and reviewing Agency policies and procedures.

Information collected included the following:
- Prior reports related to Agency data collection, accountability systems, and program monitoring
- Interviews with Agency management and staff
- Interviews at 26 school districts and 7 regional education service centers
- Interviews with representatives from 5 states (Ohio, Illinois, Florida, Pennsylvania, California)
- Documentary evidence such as:
    - Texas Education Code
    - Student dropout information on 288 students from 141 districts

- Monitoring information from 5 states (Ohio, Illinois, Florida, Pennsylvania, California)
- Agency documentation, memoranda, and publications, including the following:
  ‣ 1995-1999 Agency Strategic Plan
  ‣ Request for Legislative Appropriations (1995-1996 and 1996-1997)
  ‣ Accountability Manuals (1995 and 1996)
  ‣ Bulletin 679 (Changes 29, 30)
  ‣ Financial Accountability Resource Guide
  ‣ Bulletin 742
  ‣ Results Based Monitoring
  ‣ State Plans for Special Populations 1993-1995
  ‣ Texas Consolidated State Plan (1995-2000)
  ‣ Policy and procedures manuals
  ‣ Various management reports

Analysis techniques used:
- Review of internal controls and data access
- Trend analysis of expenditures
- Process flow-charting of the information sequence through Agency systems
- Process flow-charting of the Public Education Information Management Systems (PEIMS)
- Review of information systems such as:
  - Results Based Monitoring
  - PEIMS
  - Academic Excellence Indicator System (AEIS)
- Review of complaints investigation process
- Review of monitoring processes and functions within Agency divisions and units, including:
  - Accreditation
  - School Financial Audits
  - Special Populations
  - Child Nutrition
  - AEIS
  - Complaints
  - Field Services
  - Information Systems

Procedures and tests conducted:
- Comparison of students reported during 1993 and 1994 school years
  N = 113,699 students enrolled in 1993, but not enrolled in 1994
  Selected random sample of 300 students:
  Documentation received for 288 students (94% response rate)
  Therefore, achieved outcome of:
  n = 288, z = 1.64, 90% confidence interval (10% over-reliance), +/- 4.8% error rate

- Comparison of 1994 payroll data with 1994 program expenditures
- Comparison of 1994 state funding allotments with 1994 program expenditures
- Comparison of 1994 actual expenditure data with 1994 budgeted data
- Timeliness of Agency monitoring reports
- Timeliness of federal grant application process
- Timeliness of on-site monitoring visits
- Comparison of monitoring logs with district files
- Comparison of complaints log with district files
- Test of controls and procedures for compliance

Criteria used:

- Generally Accepted Auditing Standards for auditor's responsibility to detect and report irregularities and illegal acts
- Other standard audit criteria established during fieldwork

Fieldwork was conducted from September 14, 1995, through May 17, 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no instances of noncompliance with these standards.

The audit work was performed by the following members of the State Auditor's staff:

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The Texas Education Agency
Organizational Chart: August 1996

The Texas Education Agency
Organizational Chart: August 1996

STUDENTS

Campuses and School Districts

Texas Education Agency Staff

Responsibilities:
- District and Campus Effectiveness
- Civil Rights
- Governance
- Non-Traditional School Accountability
- Program Monitoring
- TSII

Responsibilities:
- Computer Ops
- Planning/Strategic Services
- Software Dvlpmnt
- Systems Support
- Tech Support

Responsibilities:
- Accounting
- Budget
- Contracts/Grants
- Human Resources
- Office Services
- Resource/Library
- Staff Development

Responsibilities:
- Child Nutrition
- Facilities
- Financial Audits
- Fiscal Analysis
- RESC Funding
- State Funding
- Transportation

Responsibilities:
- AEIS Development
- Performance Reporting
- Policy Analysis
- Principal Incentive Program
- Research and Evaluation
- SBOE Agenda Preparation

Assoc. Commissioner Policy Planning and Research

Coordinator School Financial Fiscal Analysis

Coordinator Internal Operations

Coordinator Information Systems

Assoc. Commissioner Finance and Operations

Assoc. Commissioner Accountability and Accreditation

Deputy Commissioner Finance and Accountability

Chief Counsel

Permanent School Fund

Communications

Responsibilities:
- Board Training
- Charter Schools
- Ed-Flex Program
- Extracurricular/UIL
- Field Service Agents
- Inter-Agency Programs
- Parent/School Services
- School Safety
- Waivers

Coordinator Initiatives/ Ed-Flex

Assoc. Commissioner School and Community Support

Responsibilities:
- Accelerated Instruction
- Adult/Community Education
- Career/Technology Education
- Deaf Services
- Driver Training
- Migrant Education
- Special Education

Coordinator Continuing Education

Assoc. Commissioner Special Populations

Deputy Commissioner Programs and Instruction

Commissioner of Education

State Board of Education

Reading Initiatives

Governmental Relations

Internal Auditor

Responsibilities:
- Advanced Academics
- Bilingual
- Curriculum
- Educator Assessment, Appraisal, Professional Development
- Educator Preparation and Certification
- Instructional Technology
- Student Assessment
- Textbook Administration

Coordinator Curriculum and Prof. Dvlpmnt

Assoc. Commissioner Curriculum and Assessment

AN ASSESSMENT OF THE TEXAS EDUCATION AGENCY'S
MONITORING SYSTEMS FOR PUBLIC EDUCATION

Background on the Monitoring Process

The Agency is responsible for monitoring more than $10 billion in state and federal program funds for local school districts. The Agency is also responsible for providing oversight for the academic performance of more than 3.6 million Texas children located within 20 regional education service centers and 1,044 districts. The Agency must have controls and processes in place to provide adequate assurances that state and federal funds are spent appropriately and that assessments of student performance are accurate.

Figure 15

The Monitoring Process for Public Education Funding
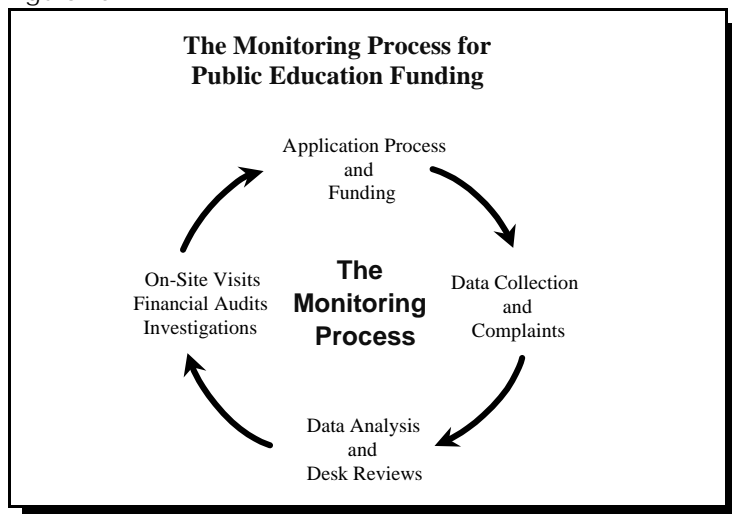
The monitoring process for the oversight of public education funds is a continuous, cyclical process. Interviews with Agency personnel and representatives from five other states (specifically California and Illinois) indicate that Figure 15 represents the monitoring process.

The monitoring process begins with the distribution of funds. The majority of Foundation School Program funds are distributed to districts through an allocation process based on attendance and wealth data. Federal funds are distributed through a grant application process which provides districts with guidelines for allowable expenditures.

Once funding has been distributed, the Agency collects data and investigates complaints. Complaints can be formal (handled through written documentation) or informal (handled by telephone calls). The Agency also performs on-site investigations of complaints when other methods do not result in a resolution.

Desk reviews and audits are performed after the district's independent auditors have conducted their audits and submitted reports to the Agency. The Agency often requests additional information to clarify questions and provide resolution to auditor findings.

Data analysis and desk reviews provide information used during on-site monitoring visits. These on-site visits can be driven by cyclical requirements, risk assessments, or complaints. These visits can be made during the funding period or as a follow-up after the funding period has ended.

Once the desk reviews and audits have been finalized, adjustments are made to the district balances for the upcoming year.

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