

AN ACT

relating to the reporting and auditing requirements relating to school dropouts and to the use of compensatory education funds.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subsections (a) and (e), Section 39.055, Education Code, are amended to read as follows:

(a) The commissioner shall develop a process for auditing school district dropout records electronically. The commissioner shall also develop a system and standards for review of the audit or use systems already available at the agency. The system must be designed to identify districts that are at high risk of having inaccurate dropout records and that, as a result, require on-site monitoring of dropout records. If the electronic audit of a district's dropout records indicates that a district is not at high risk of having inaccurate dropout records, the district may not be subject to on-site monitoring under this subsection. If the risk-based system indicates that a district is at high risk of having inaccurate dropout records, the district is entitled to an opportunity to respond to the commissioner's determination before on-site monitoring may be conducted. The district must respond not later than the 30th day after the date the commissioner notifies the district of the commissioner's determination. If the district's response does not change the commissioner's determination that the district is at high risk of having inaccurate dropout records or if

1 the district does not respond in a timely manner, the commissioner
2 shall order agency staff to conduct on-site monitoring of the
3 ~~[board of trustees of each school district shall have the]~~
4 district's dropout records ~~[audited annually at district expense by~~
5 ~~a public accountant or certified public accountant who:~~

6 ~~[(1) is certified or registered, as appropriate, and~~
7 ~~licensed under Chapter 901, Occupations Code,~~

8 ~~[(2) has successfully completed training provided by~~
9 ~~the agency in auditing school dropout records; and~~

10 ~~[(3) is not an employee of the district].~~

11 (e) ~~[The agency shall review each report of an audit of~~
12 ~~dropout records.]~~ The commissioner shall notify the board of
13 trustees of a school district of any objection the commissioner has
14 to the district's dropout data ~~[report]~~, any violation of sound
15 accounting practices or of a law or rule revealed by the data
16 ~~[report]~~, or any recommendation by the commissioner concerning the
17 data ~~[report]~~. If the data reflect ~~[report reflects]~~ that a penal
18 law has been violated, the commissioner shall notify the county
19 attorney, district attorney, or criminal district attorney, as
20 appropriate, and the attorney general. The commissioner is
21 entitled to access to all district records the commissioner
22 considers necessary or appropriate for the review, analysis, or
23 approval of district dropout data ~~[a report]~~.

24 SECTION 2. Section 42.006, Education Code, is amended by
25 adding Subsection (d) to read as follows:

26 (d) The commissioner's rules must ensure that the Public
27 Education Information Management System links student performance

1 data to other related information for purposes of efficient and
2 effective allocation of scarce school resources, to the extent
3 practicable using existing agency resources and appropriations.

4 SECTION 3. Section 42.152, Education Code, is amended by
5 amending Subsections (c), (q), and (r) and adding Subsections (q-1)
6 through (q-4) to read as follows:

7 (c) Funds allocated under this section shall be used [~~only~~]
8 to fund supplemental programs and services designed to eliminate
9 any disparity in performance on assessment instruments
10 administered under Subchapter B, Chapter 39, or disparity in the
11 rates of high school completion between students at risk of
12 dropping out of school, as defined by Section 29.081, and all other
13 students. Specifically, the funds, other than an indirect cost
14 allotment established under State Board of Education rule, which
15 may not exceed 15 percent, may be used [~~only~~] to meet the costs of
16 providing a compensatory, intensive, or accelerated instruction
17 program under Section 29.081 or an alternative education program
18 established under Section 37.008 or to support a program eligible
19 under Title I of the Elementary and Secondary Education Act of 1965,
20 as provided by Pub. L. No. 103-382 and its subsequent amendments,
21 and by federal regulations implementing that Act, at a campus at
22 which at least 40 [~~50~~] percent of the students are educationally
23 disadvantaged. In meeting the costs of providing a compensatory,
24 intensive, or accelerated instruction program under Section
25 29.081, a district's compensatory education allotment shall [~~may~~]
26 be used [~~only~~] for costs supplementary to the regular education
27 program, such as costs for program and student evaluation,

1 instructional materials and equipment and other supplies required
2 for quality instruction, supplemental staff expenses, salary for
3 teachers of at-risk students, smaller class size, and
4 individualized instruction. A home-rule school district or an
5 open-enrollment charter school must use funds allocated under
6 Subsection (a) for a purpose authorized in this subsection but is
7 not otherwise subject to Subchapter C, Chapter 29. Notwithstanding
8 any other provisions of this section:

9 (1) to ensure that a sufficient amount of the funds
10 allotted under this section are available to supplement
11 instructional programs and services, no more than 18 percent of the
12 funds allotted under this section may be used to fund disciplinary
13 alternative education programs established under Section 37.008;
14 ~~and~~

15 (2) the commissioner may waive the limitations of
16 Subdivision (1) upon an annual petition, by a district's board and a
17 district's site-based decision making committee, presenting the
18 reason for the need to spend supplemental compensatory education
19 funds on disciplinary alternative education programs under Section
20 37.008, provided that:

21 (A) the ~~the~~ district ~~shall~~ in its petition
22 reports ~~report~~ the number of students in each grade level, by
23 demographic subgroup, not making satisfactory progress under the
24 state's assessment system; and

25 (B) the ~~the~~ commissioner makes the ~~will make~~
26 ~~this~~ waiver request information available annually to the public
27 on the agency's website; and

1 (3) for purposes of this subsection, a program
2 specifically designed to serve students at risk of dropping out of
3 school, as defined by Section 29.081, is considered to be a program
4 supplemental to the regular education program, and a district may
5 use its compensatory education allotment for such a program.

6 (q) The State Board of Education, with the assistance of the
7 state auditor and the comptroller, shall develop and implement by
8 rule ~~[a]~~ reporting and auditing systems ~~[system]~~ for district and
9 campus expenditures of compensatory education funds to ensure that
10 compensatory education funds, other than the indirect cost
11 allotment, are spent only to supplement the regular education
12 program as required by Subsection (c). The reporting requirements
13 shall be managed electronically to minimize local administrative
14 costs. A district shall submit the report required by this
15 subsection not later than the 150th day after the last day
16 permissible for resubmission of information required under Section
17 42.006.

18 (q-1) The commissioner shall develop a system to identify
19 school districts that are at high risk of having used compensatory
20 education funds other than in compliance with Subsection (c) or of
21 having inadequately reported compensatory education expenditures.
22 If a review of the report submitted under Subsection (q), using the
23 risk-based system, indicates that a district is not at high risk of
24 having misused compensatory education funds or of having
25 inadequately reported compensatory education expenditures, the
26 district may not be required to perform a local audit of
27 compensatory education expenditures and is not subject to on-site

1 monitoring under this section.

2 (q-2) If a review of the report submitted under Subsection
3 (q), using the risk-based system, indicates that a district is at
4 high risk of having misused compensatory education funds, the
5 commissioner shall notify the district of that determination. The
6 district must respond to the commissioner not later than the 30th
7 day after the date the commissioner notifies the district of the
8 commissioner's determination. If the district's response does not
9 change the commissioner's determination that the district is at
10 high risk of having misused compensatory education funds or if the
11 district does not respond in a timely manner, the commissioner
12 shall:

13 (1) require the district to conduct a local audit of
14 compensatory education expenditures for the current or preceding
15 school year;

16 (2) order agency staff to conduct on-site monitoring
17 of the district's compensatory education expenditures; or

18 (3) both require a local audit and order on-site
19 monitoring.

20 (q-3) If a review of the report submitted under Subsection
21 (q), using the risk-based system, indicates that a district is at
22 high risk of having inadequately reported compensatory education
23 expenditures, the commissioner may require agency staff to assist
24 the district in following the proper reporting methods or amending
25 a district or campus improvement plan under Subchapter F, Chapter
26 11. If the district does not take appropriate corrective action
27 before the 45th day after the date the agency staff notifies the

1 district of the action the district is expected to take, the
2 commissioner may:

3 (1) require the district to conduct a local audit of
4 the district's compensatory education expenditures; or

5 (2) order agency staff to conduct on-site monitoring
6 of the district's compensatory education expenditures.

7 (q-4) The commissioner, in the year following a local [~~an~~]
8 audit of compensatory education expenditures, shall withhold from a
9 district's foundation school fund payment an amount equal to the
10 amount of compensatory education funds the agency determines were
11 not used in compliance with Subsection (c). The commissioner shall
12 release to a district funds withheld under this subsection when the
13 district provides to the commissioner a detailed plan to spend
14 those funds in compliance with Subsection (c).

15 (r) The commissioner shall grant a one-year exemption from
16 the requirements of Subsections (q)-(q-4) [~~Subsection (g)~~] to a
17 school district in which the group of students who have failed to
18 perform satisfactorily in the preceding school year on an
19 assessment instrument required under Section 39.023(a), (c), or (l)
20 subsequently performs on those assessment instruments at a level
21 that meets or exceeds a level prescribed by commissioner rule. Each
22 year the commissioner, based on the most recent information
23 available, shall determine if a school district is entitled to an
24 exemption for the following school year and notify the district of
25 that determination.

26 SECTION 4. Subsections (b), (c), and (d), Section 39.055,
27 Education Code, are repealed.

1 SECTION 5. Subsection (c), Section 42.152, Education Code,
2 as amended by this Act, applies to the use of compensatory education
3 funds allotted under Chapter 42, Education Code, for any school
4 year, including a school year before September 1, 2003.

5 SECTION 6. This Act takes effect September 1, 2003.

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 894 passed the Senate on April 15, 2003, by a viva-voce vote; May 24, 2003, Senate refused to concur in House amendments and requested appointment of Conference Committee; May 26, 2003, House granted request of the Senate; June 1, 2003, Senate adopted Conference Committee Report by a viva-voce vote.

Secretary of the Senate

I hereby certify that S.B. No. 894 passed the House, with amendments, on May 20, 2003, by a non-record vote; May 26, 2003, House granted request of the Senate for appointment of Conference Committee; May 31, 2003, House adopted Conference Committee Report by a non-record vote.

Chief Clerk of the House

Approved:

Date

Governor