

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 1780

SPONSOR: Appropriations Subcommittee on Education and Senator Horne

SUBJECT: Sharpening the Pencil

DATE: April 4, 2001 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>O'Farrell</u>	<u>O'Farrell</u>	<u>ED</u>	<u>Fav/1amendment</u>
2.	<u>McKee</u>	<u>Hickam</u>	<u>AED</u>	<u>Favorable/CS</u>
3.	_____	_____	<u>AP</u>	<u>Withdrawn: Fav/CS</u>
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

The bill creates the Sharpening the Pencil Act, an accountability system administered by the Commissioner of Education and based on reviews of school district management and education practices. Third-party evaluators will conduct the reviews, which will measure district management and education practices against standards developed by the Commissioner. All districts are to be reviewed on a 10-year cycle and supported by annual quality assurance reviews and technical assistance. The reviews are subject to funding in the General Appropriations Act. District school boards are to present summaries of review findings in public hearings that provide opportunity for public comment and questions. Districts found not to be conforming to best practices must adopt an action plan for improvement, adopt the auditors' recommendations or, if the two are materially different, adopt an alternative plan that minimizes the differences. They have two years to correct deficiencies; however, districts do have the opportunity to submit exceptions if they disagree with the auditors' findings. In districts where the school board chooses not to implement an action plan or the recommendations, the Commissioner of Education or any citizen of the school district may submit a written appeal to the State Board of Education. The State Board of Education shall remand the appeal to the district school board with its written recommendations for district school board actions. Districts using best practices are eligible to receive a Seal of Best Financial Management that is good for five years. Dollar savings realized from employing best financial management practices are to be redirected to classrooms and instruction where allowed by fund source.

The Sharpen the Pencil Act replaces the school district performance reviews and best financial management practices reviews currently administered by the Office of Program Policy Analysis and Government Accountability (OPPAGA).

Also, the bill provides for the creation of land acquisition and facilities advisory boards to help school districts correct deficiencies noted in examinations or audits of the districts by the Auditor General or the Office of Program Policy Analysis and Government Accountability (OPPAGA).

This bill substantially amends section 230.23025, amends sections 11.51, 230.23027, 233.43, 235.2197, and repeals sections 11.515, 230.2302, and 230.23026 of the Florida Statutes.

The bill takes effect July 1, 2001.

II. Present Situation:

The Office of Program Policy Analysis and Government Accountability (OPPAGA) currently administers two types of school district reviews; school district performance reviews and best financial management practices reviews.

School District Performance Reviews

The 1996 Legislature created the school district performance review program for the purpose of assisting local school districts in identifying ways to save money, improve management, and increase overall efficiency and effectiveness. Under the provisions of s. 230.2302, F.S., the Legislature annually designates the districts to be reviewed. The district reviews are conducted by independent consulting firms selected by OPPAGA through a request for proposal process, and are fully funded by the state through the General Appropriations Act. School districts may retain any cost savings realized from implementing review recommendations.

Section 11.515, F.S., provides that school district performance reviews must examine the following 11 school district management and operational areas:

- School district organization and management
- Education service delivery
- Community involvement
- Facilities use and management
- Personnel management
- Asset and risk management
- Financial management
- Purchasing
- Transportation
- Food service
- Safety and security

OPPAGA works with a school district to help refine the scope of a review so it addresses specific district issues. Nine school districts have undergone performance reviews: Hamilton, Hillsborough, Lee, Clay, Glades, Orange, Broward, Brevard, and Martin. All but the reviews in the Brevard and Martin districts were fully funded by the Legislature. These two districts underwent combined performance/best financial management practices reviews and paid part of the cost themselves.

The 1999 Legislature appropriated \$30,000 for post-review evaluations of the Hamilton, Hillsborough, and Lee County districts. Since then, no state funds have been appropriated for school district performance reviews.

Best Financial Management Practices Reviews

In 1997 the Legislature enacted legislation directing OPPAGA and Florida's Auditor General to develop a system for reviewing school district financial management practices. The purpose of the reviews is to instill public confidence in the management and operation of school districts, and at a minimum they must address the following areas:

- Efficient use of resources
- Compliance with generally accepted accounting principles and state and federal laws relating to financial management
- Performance accountability systems
- Cost control systems.

School boards may, by unanimous vote, apply to OPPAGA for a complete or partial best financial management practices review. A partial review would consist of an examination of one of the components of best financial management practices, including management, personnel, transportation, and food and nutrition services. OPPAGA is authorized to prioritize the order in which requested reviews are conducted based on district growth rates and a demonstrated need for review. The director of OPPAGA may contract with independent consultants to conduct all or part of the review of any school district. The cost of full reviews is shared equally by the school district and the state. A district requesting a partial review is obligated to pay 75 percent of the cost. The Legislature may choose to pay the full cost of any review.

OPPAGA and the Auditor General jointly examine school district operations to determine if the districts are using best financial management practices in the statutorily specified areas. The reviews are structured to encourage school districts to:

- Use performance and cost-efficiency measures to evaluate programs
- Use appropriate benchmarks based on comparable school districts, government agencies, and industry standards to assess their operations and performance
- Identify potential cost savings through privatization and alternative service delivery
- Link financial planning and budgeting to district priorities, including student performance.

The first best financial management practices review was conducted of the Manatee County School District, and a report of the review was published by OPPAGA in 1998. According to the report findings the district could realize a long-term net savings in excess of \$35 million if the school board follows through with the implementation of the review recommendations. A February 2001 follow-up report by OPPAGA indicated the district had implemented 35 percent of the recommendations, and was in the process of implementing a new data computer system that will enable completion of many of the remaining recommendations.

In 1999, OPPAGA conducted a best financial management practices review for Polk County School District, and contracted for combined performance and best financial management practices reviews for the Brevard and Martin County School Districts. If the school boards of

these districts vote to implement all the review recommendations, it is estimated they could realize a combined savings after five years that would be in excess of \$30 million.

The 2000 Legislature directed OPPAGA to expand the best financial management practices reviews to include four additional areas; school safety, community involvement, administrative and instructional technology, and educational service delivery. The Commissioner of Education adopted the new practices for use in reviews in October 2000.

The 2000 Legislature also appropriated \$200,000 for OPPAGA to conduct a best financial management practices review of the Lake County School System during the 2000-01 fiscal year. A consultant has been retained to conduct the review, and work is anticipated to begin in March 2001.

III. Effect of Proposed Changes:

The bill creates the Sharpening the Pencil Act, a school district accountability system administered by the Commissioner of Education with the involvement of the Auditor General, and based on district financial management and education practices. The new act replaces the current school district performance reviews and best financial management practices reviews authorized by s. 230.2302, F.S., and administered by OPPAGA.

The bill expresses legislative intent that school districts are to be held accountable for the efficient and effective use of education dollars. Such efficiency and effectiveness is to be achieved and demonstrated by district adherence to best financial management practices. In addition, school district spending choices are to be child-centered, not institution-based. Cost savings realized by implementing best financial management practices are to be directed to the school and the classroom to support best education practices. Elements of the accountability system include:

- An independent third-party best financial management audit and cost savings recommendations
- An education outcome assessment report
- Public reporting and hearings
- Development of a school district action plan
- Annual quality assurance review and technical assistance.

Under provisions of the act each school district is to undergo a best financial management practices review every ten years. No later than December 31 of each year the Commissioner of Education is to recommend to the President of the Senate and the Speaker of the House of Representatives the districts proposed for audit during the ensuing year. The Legislature will annually designate in the General Appropriations Act the districts that will receive a state funded best financial management practices audit. The audit objectives are to:

- Identify wasteful spending
- Recommend cost savings
- Ensure compliance with best financial management practices
- Redirect cost savings to schools and classrooms.

The audits are to be conducted by independent third-party auditors, knowledgeable about school district management practices, who are under contract to the Department of Education. The Commissioner is to develop best financial management standards for the audits, and the practices are to address the same general areas as designated in current law:

- Efficient use of all resources
- Compliance with generally accepted accounting principles and state and federal laws relating to financial management
- Performance accountability systems
- Cost-control systems

The audit is to be completed within 6 months of the date it commences, and the auditors must provide the school district with an audit report within 60 days of the audit completion date. The report is to include an executive summary written without jargon in a format readily understandable to the general public. If a district is not conforming to best financial management practices, the report must contain recommendations that would enable the district to develop an action plan to meet best practices standards within two years. Also, the report is to include recommendations on how to redirect cost savings to the schools and the classrooms. School districts will have the opportunity to submit exceptions to the auditors' findings.

At the same time the district's best financial management practices audit report is released the Department of Education will prepare and release an Education Outcome Assessment Report. The report will include information on low-performing schools, graduation rates, dropout rates, truancy rates, school safety information, and pupil progression rates. Deficiencies noted in the education outcome assessment are to be addressed by the redirected cost savings that result from the best financial management practices audit recommendations. The cost savings must be targeted to classrooms for:

- Direct student instruction
- Teacher salaries
- Teacher training
- Improved classroom facilities
- Student supplies
- Textbooks
- Classroom technology.

Within 45 days of making copies of the best financial management practices audit and the educational assessment report available to parents, teachers, school and district advisory councils, and the public, the district school board must hold at least one open hearing to allow the public opportunity to offer comment and opinion on the findings and the district's action plan to correct noted deficiencies. Any hearings must be noticed according to s. 120.525, F.S., must be attended by the auditor, and must be recorded by mechanical means or by a court reporter. After the public hearing the school board will make its decision to implement the district's action plan, the auditor's recommendations or, if there are differences between the two, an alternative that may reconcile those differences.

During the 10-year period between the time a school board votes to implement its action plan and the date of its next best financial management practices audit, the Department of Education

will retain third-party auditors to conduct annual quality assurance reviews of the district action plan. The department will provide technical assistance to districts in the appropriate implementation of the best financial management and education practices.

Districts found to be using best financial management practices will earn a Seal of Best Financial Management for a 5-year period. Such districts must notify the Commissioner and board annually of any policy or operational changes that do not conform to the state's best financial management practices standards.

The bill provides a process, including timelines, for citizen appeal to the State Board of Education if a school board fails to adopt or, if after voting to adopt, fails to implement the action plan recommended by the best financial management practices auditors.

In addition, the bill provides for the creation of a Land Acquisition and Facilities Advisory Board to assist in improving a district's land acquisition and facilities operational processes when deficiencies are determined to exist. The Legislative Budget Commission is to determine whether funds for the district will be placed in reserve until the deficiencies are corrected.

The bill repeals those sections of law relating to school district performance reviews and best financial management practices reviews administered by OPPAGA.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Private consulting firms may realize a significant increase in revenue if retained to perform best financial management practices audits.

C. Government Sector Impact:

In order for each of the 67 school districts to be reviewed at least once every ten years, an average of 6 to 7 reviews must be conducted per year. The reviews are to be funded entirely by the Legislature. Based on costs from the district reviews conducted since 1997, the Department of Education estimates the annual cost of contracting the audits, conducting annual quality assurance reviews, and providing technical assistance to be \$2 million.

School districts, by implementing best financial management practices recommendations, could realize significant cost savings.

Members of land acquisition and facilities advisory boards may be reimbursed for travel and per diem. The cost will depend on the number of boards created each year, and the number of times they convene.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.