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State Auditor

An Audit Report on
**The Texas Education Agency's
Monitoring of Average Daily
Attendance Reporting**

September 2009
Report No. 10-001



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Overall Conclusion

The Texas Education Agency (Agency) has a process in place to monitor the accuracy of average daily attendance (attendance) that school districts and charter schools self report; however, the process needs improvement. The Agency should improve its process by conducting timely audits on a statewide basis and requiring school districts and charter schools to address potential data errors identified in reported attendance information.

The Agency is responsible for ensuring the accuracy of reported attendance. It identifies potential errors by performing comprehensive analysis on attendance data for the approximately 4.4 million students who attend public school districts and charter schools statewide. Based on the results of the data analysis, the Agency selects school districts and charter schools for audit. However, the Agency's method for selecting school districts and charter schools to audit does not allow for statewide coverage and results in many of the same districts being audited from year to year. The Agency audited 227 school districts and charter schools from 2004 through 2008; approximately 1,090 school districts and charter schools were not audited during that time frame. Of these 227 audited school districts and charter schools, 111 were audited from two to four times during this five-year period. While it is expected that some school districts would be audited numerous times, it is not the expectation that these repeated audits would make up the majority of the audits the Agency conducts each year.

Additionally, the Agency's current audit process focuses on addressing all potential errors at each audited school district and charter school. The Agency does not provide the unaudited school districts and charter schools with information regarding their identified potential errors. School districts and charter schools could resolve some identified potential errors independently with Agency oversight. This may allow the Agency to reallocate its limited resources and enable the Agency to focus more on auditing and monitoring school districts and charter schools on a statewide basis, including other areas of review, such as compliance with attendance accounting requirements. It may also help the Agency to conduct audits on a more timely basis.

Background Information

The Texas Education Agency (Agency) uses average daily attendance as a primary factor in determining each school district's and charter school's annual allocation of Foundation School Program funding.

"Average daily attendance" is based on self-reported attendance information that each school district and charter school submits to the Agency via the Public Education Information Management System (PEIMS). PEIMS is the automated information system repository for attendance and other data about students in the State's public education system.

Source: Texas Education Agency.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0134.

For more information regarding this report, please contact Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

In addition, the Agency's State Funding Division (Funding Division) accurately calculates and records all audit adjustments it receives. However, it should improve its monitoring by tracking the audit adjustment process. Improved tracking of audit adjustments may allow the Funding Division to make audit adjustments in a timely manner.

Summary of Management's Response

The Agency generally agrees with the findings and recommendations in this report. The Agency's management responses to the specific recommendations in this report are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

The Agency had appropriate controls in place to ensure that school district data entered into the Public Education Information Management System (PEIMS) is complete and reliable. However, the Agency lacked proper security management over users of the PEIMS Edit + application and some PEIMS servers. These weaknesses potentially expose confidential data to unauthorized access and modification. Identified weaknesses included former school district and Agency employees with continued access, users with inappropriate rights, and accounts that were no longer needed.

Summary of Objectives, Scope, and Methodology

The audit objectives were to:

- Determine whether the School Financial Audits Division at the Agency has processes that address the risk of over- and under-reporting of attendance data by school districts and charter schools.
- Verify that the Agency adjusts funding for school districts and charter schools that have over- or under-reported average daily attendance.
- Determine whether information systems at the Agency have controls that provide reasonable assurance of the accuracy and completeness of average daily attendance data that school districts and charter schools report.

The scope of this audit covered the Agency's processes and procedures for auditing student attendance data submitted by school districts and charter schools for the 2005-2006 school year. Auditors also reviewed identified attendance data inconsistencies for the following school years: 2002-2003, 2003-2004, 2005-2006, and 2006-2007. The review of the Agency's audit adjustments process covered school years 2003-2004 and 2005-2006. Auditors also conducted

an attendance compliance survey of nine school districts and one charter school that covered attendance data submitted for the 2007-2008 school year, which was the most recent data available to auditors.

The audit methodology included interviewing Agency staff, performing analysis of student attendance data, reviewing and validating the School Financial Audits Division's audit selection and error resolution processes, performing an attendance compliance survey of nine districts and one charter school, reviewing and validating the State Funding Division's audit adjustment process, and testing of the PEIMS Edit + application.

Auditors communicated other, less significant issues to the school districts' and charter schools' management separately in writing.

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Detailed Results

Chapter 1

The Texas Education Agency's Process to Monitor Attendance Adequately Identifies Potential Reporting Errors; However, the Agency Should Improve the Audit and Resolution of Potential Errors

The Texas Education Agency's (Agency) process to monitor school average daily attendance data adequately identifies potential reporting errors. The Agency uses average daily attendance as a primary factor in determining each school district's and charter school's annual allocation of Foundation School Program funding. The Agency's monitoring process includes a comprehensive analysis of attendance data by its Financial Audits Division (Audits Division) to identify data indicators of potential errors in reporting of average daily attendance (see text box for more information about the Audits Division). However, the method that the Agency uses to select school districts and charter schools for audit results in many of the same districts and charter schools being audited from year to year. The Agency should improve its monitoring by conducting timely audits on a statewide basis and requiring school districts and charter schools to resolve potential errors.

Financial Audits Division

The Agency's State Financial Audits Division (Audits Division) has numerous responsibilities. These include conducting audits to monitor statewide student attendance data for all school districts and charter schools statewide.

In addition, the Audits Division is responsible for conducting (1) financial desk reviews, (2) financial and compliance audits, (3) investigations, (4) special monitoring, and (5) financial data analyses.

The Audits Division reported it had 46 full-time equivalent (FTE) positions, 9 of which were dedicated to conducting and reviewing student attendance audits.

Source: Texas Education Agency.

Additionally, the Agency's current audit process focuses on resolving potential errors at each audited school district and charter school. However, a significant number of these potential errors involve students who are reported to have attended two or more different school districts during the same time period (dual attendance), which school districts could resolve independently with Agency oversight. If the Agency changes its process, it may allow the Agency to reallocate its limited resources and enable the Agency to focus more on auditing and monitoring school districts and charter school on a statewide basis, including other areas of review, such as compliance with attendance accounting requirements. It may also help the Agency conduct the audits on a timely basis.

The Public Education Information Management System (PEIMS)

PEIMS is the system that contains student and school district-specific information. The Agency uses the data in PEIMS to determine funding and accountability for each school district and charter school.

PEIMS Edit+ Application

PEIMS Edit+ is an application that interfaces with PEIMS that allows school districts and charter schools to report their specific information. (See Appendix 3 for more detailed information on PEIMS.)

Source: Texas Education Agency.

Chapter 1-A

The Agency's Analyses of Student Attendance Data Are Comprehensive; However, It Should Improve the Timeliness and Consistency of Its Analyses

The Agency's State Financial Audits Division (Audits Division) developed a comprehensive method to analyze the student and attendance data that is self reported by school districts and charter schools into the Public Education Information Management System (PEIMS) (see text box for information on PEIMS). The Audits Division developed eight separate data analyses to identify potential

errors in student attendance data. These analyses were designed to allow the auditor to analyze the available data submitted by school districts and charter schools as it relates to student attendance accounting requirements. The Audits Division works to resolve all identified potential errors, which are exceptions in the self-reported attendance data, for the school districts or charter schools selected for audit. It also reviews 100 percent of student attendance records for some programs during its audits. Attendance reporting errors may affect a school district's or charter school's funding. (See Appendix 4 for more information about the data analyses.)

Examples of potential errors are instances in which the same student attends two separate school districts during the same reporting period (dual attendance), or students who are reported to have attended a prekindergarten program but are not reported as being educationally disadvantaged, homeless, or as one of the other attendance qualifications. An example of a program for which the Audits Division reviews all attendance records is Pregnancy Related Services, which previous Audits Division audits have shown to have a high degree of record-keeping problems.

State Auditor's Office testing supports the Audits Division's identification of which areas and programs should be monitored. State auditors tested the attendance records from the 2007-2008 school year in the areas analyzed for six of the Division's eight data analyses, with a random sample of 413 students from 9 school districts and 1 charter school. State auditors identified errors in 48 of the 413 records tested, for an overall error rate of 12 percent (see Table 1). This indicates, with the possible exception of Special Education, that the Agency should continue to closely monitor these areas.

Table 1

Total Errors in Student Categories Tested by State Auditors ^a			
School Year 2007-2008			
Student Category Tested	Records Tested	Number of Identified Errors	Error Rate
English as a Second Language	72	7	10%
Early Education ^b	66	8	12%
Prekindergarten	75	7	9%
Pregnancy-related Services ^b	50	18	36%
Career and Technology Education	75	7	9%
Special Education	75	1	1%
Total	413	48	12 %
^a See Appendix 4 for descriptions of the Audits Division's data analyses. ^b The Audits Division reviews 100 percent of attendance records for this program.			

The Audits Division conducts a comprehensive review of PEIMS data that includes analyzing data at the student level for each of the approximately 4.4 million students attending public and charter schools throughout the state. School districts and charter schools submit student attendance data to PEIMS three times each year: (1) in October, (2) in June, and (3) in August if there are errors. The Audits Division does not conduct its analysis of PEIMS data until the spring following the school districts' and charter schools' final submission of student attendance information. As a result of this delay, the Audits Division does not complete its audit of attendance data until two years or later after the completion of a school year. As of March 27, 2009, the Audits Division had completed 4 percent of the school year 2006-2007 audits. In addition, the Audits Division indicated that it had begun 61 percent of school year 2006-2007 audits and had not completed any school year 2007-2008 audits.

Although the Audits Division's analysis is comprehensive, it should be more consistent from year to year. The Audits Division did not ensure that it completed an analysis for each school year or that the data was accurately summarized and complete. Specifically:

- The Audits Division did not analyze attendance data for the 2004-2005 school year. Instead, Audits Division management decided to analyze reported attendance data for the following school year because adjustments to the 2005-2006 attendance data would have affected subsequent school year funding due to legislative changes to the Foundation School Program's funding formula. As a result, the financial impact of any adjustments is undetermined for school year 2004-2005. (See Appendix 2 for information about the Foundation School Program.)
- For school year 2005-2006, the Audits Division's analysis excluded three of eight developed analyses. It also used Statistical Analysis System (SAS) language that contained errors to develop a separate analysis that inaccurately summarized the data that the Agency then used in the audit selection process. As a result, the Audits Division used inaccurate and incomplete information to select school districts for auditing that year.
- For school year 2006-2007, the Audits Division's analysis did not include all required components regarding Early Education attendance. As a result, the Audits Division used inaccurate and incomplete information for one of eight data analyses used to select school districts and charter schools for auditing that year.

Recommendations

The Agency should ensure that its Audits Division:

- Reduces the amount of time it takes to initiate and complete the audit process.
- Incorporate a documented review of all data analyses to ensure the data is accurate and complete.

Management's Response

The Agency appreciates the thorough audit performed by the SAO on the Texas Education Agency's (TEA or Agency) processes for monitoring average daily attendance reporting and is particularly pleased that the SAO's audit found that the Agency's monitoring processes were comprehensive and accurately identified potential reporting errors.

We generally agree with the recommendation that the Audits Division reduce the amount of time it takes to initiate and complete the audit process. We will incorporate a trend analysis of our prior year audit findings to determine significant problems in program areas throughout the state and focus on these areas when initiating the audit process for the following year. The Division is currently reviewing its quality control processes for conducting statewide data analyses to ensure that the analyses are conducted properly. Additionally, the data process and selection methodology will be properly documented in our audit procedures manual. This project is to be completed within the next 30 days; the contact person is Rita Chase, Director of Financial Audits.

Chapter 1-B

The Audits Division's Policy for Selecting Which School Districts and Charter Schools to Audit Does Not Allow for Statewide Coverage

The Audits Division audits approximately 100 school districts or charter schools each year. Agency policy requires the Audits Division to select school districts and charter schools for audit annually, with the total selected comprised of (1) 50 percent being school districts or charter schools with the highest numbers of potential errors identified during the Audits Division's data analysis process and (2) 50 percent being school districts or charter schools with the highest numbers of adjustments from the previous school year.

However, the Audits Division does not always comply with this policy. In practice, Audits Division auditors compile a list of the 100 school districts or charter schools with the highest numbers of identified potential errors. They then make substitutions to this list based on their discretion. This has resulted in many of the same school districts or charter schools being audited from year to year.

The Audits Division audited 227 school districts and charter schools from 2004 through 2008, of which 111 school districts or charter schools were audited from two to four times. This left 1,090 school districts or charter schools that were not audited (see Appendix 5 for more information about the school districts selected for audit). While it is expected that some school districts and charter schools would be audited numerous times, it is not the expectation that these repeated audits would make up the majority of the audits the Agency conducts each year. A limited survey of unaudited school districts by state auditors identified reporting errors. If school personnel know they are unlikely to be audited, there may be decreased incentive to correct or prevent these errors.

In addition, the Audits Division's selection process does not include a documented risk assessment or allow for a statewide approach to monitoring school attendance data. The Audits Division does not conduct trend analyses of the types of errors committed, the number of identified potential errors that are actual errors, the ratio of potential errors to student population, or other attendance trends on a statewide basis. By conducting a more extensive risk assessment, the Audits Division could identify school districts and charter schools that are experiencing an increasing error rate, are experiencing significant changes in student attendance, or that have not been conducted in several years. Additionally, a formal risk assessment would help the Audits Division prioritize the use of its limited resources in auditing school districts and charter schools.

Recommendation

The Agency should ensure its Audits Division develops a selection process for auditing school districts and charter schools that includes a risk assessment and allows for greater statewide coverage.

Management's Response

We agree with the above recommendation although we maintain that the Audits Division does have a selection process in place that includes a risk assessment of districts that have the highest number of potential errors. We agree that this process may not be clearly documented in procedures as SAO would like to see. We will formally document our selection process and risk assessment process to comply with this recommendation. Additionally, we

will put in place additional trend analyses that will allow greater coverage of our monitoring and auditing process. This project is to be completed within the next 60 days; the contact person is Rita Chase, Director of Financial Audits.

Chapter 1-C

The Audits Division's Audit Process Focuses Too Much on Resolving Potential Errors That School Districts and Charter Schools Could Correct Independently

The Audits Division's auditing process focuses on two primary areas: (1) resolving potential errors identified during the Audits Division's data analysis process and (2) reviewing reported student attendance for some error-prone programs. The Audits Division is unable to resolve all potential errors identified due to limited resources. The Audits Division should improve the resolution of these potential errors by asking school districts and charter schools to resolve them and monitoring this process through sample-based reviews.

The Audits Division's method of reviewing 100 percent of student attendance records in some error-prone programs effectively ensures the reported attendance is accurate for these programs in the school districts and charter schools audited. However, the use of a sampling methodology may improve the Audits Division's efficiency and allow it to address additional areas of potential noncompliance. The Division's identification of potential errors and

review of student attendance in error prone programs does not ensure compliance with other attendance accounting requirements, such as reconciling teacher rosters to attendance records. Although the Audit Division reviews other attendance accounting requirements for approximately 20 school districts and charter schools each year during follow-up reviews, according to the Agency, the majority of school districts and charter schools are not subject to these reviews.

A limited survey of nine school districts and one charter school by state auditors identified noncompliance with some of the attendance accounting requirements. Specifically:

- Four school districts and one charter school reviewed did not have attendance procedure manuals that were in compliance with the *Student Attendance Accounting Handbook* (Handbook) (see text box).
- Seven school districts reviewed did not have all information required by the handbook on the reviewed absence reports, such as the reporting period, teacher's name, teacher's signature, or grade level.

The *Student Attendance Accounting Handbook*

The Agency's State Financial Audits Division monitors statewide student attendance data for all school districts and charter schools in compliance with the *Student Attendance Accounting Handbook*. This monitoring includes analyzing student attendance data, selecting school districts and charter schools for auditing, and adjusting instances of over- or under-reported attendance.

The *Student Attendance Accounting Handbook* contains the official attendance accounting rules and regulations for all public schools and charter schools in Texas. It includes procedures for the accurate taking, recording, and reporting of attendance accounting data.

Source: Texas Education Agency.

- Six school districts reviewed did not properly reconcile the teacher's attendance roster to the attendance accounting records for the fourth six-week period of the 2007-2008 school year.

Currently, the Audits Division contacts the school districts or charter schools selected for audit and requests documentation to resolve the identified potential errors and to support the attendance of students in identified error-prone programs. School districts not selected for audit are not informed about their identified potential errors or asked to confirm student attendance in error prone programs. As a result, a significant number of identified potential errors are never addressed. The Audits Division identified 155,566 potential errors and student attendance in programs prone to reporting errors during the four most recent audit cycles. Of these potential errors, 74,213 (48 percent) were attributed to school districts or charter schools selected for audit; the remaining 81,353 (52 percent) potential errors were not addressed.

However, the school districts could efficiently correct some of these potential errors with oversight from the Audits Division, which would allow the Audits Division to reallocate its limited resources. For example, a significant number of the identified potential errors regarded students who were reported as attending two separate school districts during the same reporting period (dual attendance). Of the 155,566 potential errors and reported attendance in programs prone to reporting errors that the Audits Division identified during the last four years, 57,210 (37 percent) were potential errors in dual attendance. Of these potential errors in dual attendance, 24,180 (42 percent) were attributed to school districts or charter schools selected for audit.

Because of limited resources, the Audits Division cannot ensure that all of the potential errors in dual attendance are resolved in the audited school districts. Examples include:

- The Audits Division elected not to resolve 2,723 potential errors in dual attendance in audited school districts and charter schools for the 2005-2006 school year because the potential errors in dual attendance in these specific school districts and charter schools were historically legitimate.
- The Audits Division resolves potential errors in dual attendance only for the school district or charter schools selected for auditing; if another unaudited school district or charter schools is associated with the potential error, it will not be fully resolved.

The duplicate student report is a standard report available on the Person Identification Database Enrollment Tracking system in PEIMS, which all school districts and charter schools can access. School districts and charter schools could use these reports to review and correct the potential errors in dual attendance independently. The Audits Division had identified 73 potential errors in dual attendance for the nine school districts and one charter

school that state auditors surveyed. State auditors requested that each school district or charter school review and resolve their identified potential errors in dual attendance. The school districts and charter school reported they reviewed all 73 potential errors and that 69 were resolved and 4 were identified as actual errors.

One school district reported it has a documented process for accessing duplicate student reports every six weeks to identify students with potential attendance reporting errors and resolving these errors.

Recommendation

The Agency should consider implementing an audit approach that focuses more on monitoring compliance with attendance requirements, and the resolution of potential errors. This could include asking school districts and charter schools to review and resolve identified potential errors and monitoring the reported resolution through sample-based reviews.

Management's Response

We generally agree with the recommendation that the Audits Division should monitor the school's compliance with the Student Attendance Accounting Handbook. We are currently increasing our sample of districts that we perform compliance reviews on for the 2008-2009 school to incorporate a larger portion of the state and identify potential errors; the contact person is Rita Chase, Director of Financial Audits.

Chapter 1-D

The Audits Division Calculates Adjustments Correctly; However, It Does Not Forward Completed Audits to the Agency's State Funding Division in a Timely Manner

The Audits Division correctly calculated the error adjustments in a sample that state auditors tested; however, it did not consistently retain supporting documentation or forward completed audits to the Agency's State Funding Division (Funding Division) in a timely manner. A delay in forwarding completed audits to the Funding Division delays the audit adjustment process and the recoupment of state funds from school districts and charter schools.

State auditors reviewed 10 errors the Audits Division had identified and adjusted. Although the Audits Division had correctly calculated the number of days reported in error for all 10 errors, it did not consistently retain documentation that supported its audit findings. The Audits Division lacked a policy for retaining supporting documentation, and staff indicated that prompt destruction of the documents was the normal procedure due to limited storage

space. This practice limited the availability of documentation for state auditors' review.

While adjustments are estimated during the audit process, the final adjustment amount is not calculated and communicated to the school district or charter school until the audit is forwarded to the Funding Division. Retention of all audit documentation throughout the adjustment process would provide greater support for the audit adjustment if there is a dispute.

In addition, the Audits Division did not submit all completed audits to the Funding Division for adjustments in a timely manner. Specifically:

- The Audits Division submitted 7 (6 percent) of 110 audits for the 2003-2004 school year to the Funding Division for adjustment 250 or more days after the audits were completed.
- The Audits Division submitted 10 (13 percent) of 76 audits for the 2005-2006 school year to the Funding Division for adjustment 112 or more days after the audits were completed.

Recommendations

The Agency should ensure its Audits Division:

- Forwards audits to the Funding Division once the audits are completed.
- Develops and incorporates procedures for retaining all audit documentation throughout the adjustment process into its auditing policies.

Management's Response

We agree with the recommendation that the Audits Division should forward audits to the Division of State Funding in a timely manner. We have incorporated into our Access database a query that will ensure that all audits that have been finalized will be forwarded to state funding on a timely basis. Although the Audits Division has a process and a procedure for retaining documentation, this process will be documented in the procedures manual to ensure that all auditors retain pertinent audit data until the audit has been sent to state funding and the audit process is complete. This project is to be completed within the next 60 days; the contact person is Rita Chase, Director of Financial Audits.

The Agency Correctly Adjusted Funding for School Districts and Charter Schools that Over- or Under-Reported Attendance; However, It Should Improve Its Tracking of these Adjustments

Foundation School Program Funding Adjustments

The Agency's State Funding Division (Funding Division) adjusts Foundation School Program (FSP) funding based on adjusted average daily attendance figures in audits conducted by the Agency's Audit Division.

If a school district's or charter school's audit adjustment results in the State's recovery of FSP funds, the Funding Division recovers these funds by reducing subsequent FSP payments to the school district or charter school within the current school year. If an audit is processed in the last month of the school year, the Funding Division recovers FSP funds at the start of the following school year.

School districts and charter schools are divided into payment classes and receive a certain number of FSP payments throughout the school year. The payment amounts vary depending on the districts' or charter schools' payment class.

Source: Texas Education Agency.

The Agency's State Funding Division (Funding Division) performs adjustments to Foundation School Program (FSP) funding for school districts and charter schools that the Audits Division determined had over- or under-reported attendance (see text box). Although the Funding Division accurately calculated and recorded all audit adjustments it received, it should improve its tracking of audit adjustments.

Chapter 2-A

The Agency's State Funding Division Accurately Calculated and Recorded FSP Funding Adjustments for Over- and Under-reported Attendance

The Funding Division processed all audit adjustments it received from the Audits Division for the 2003-2004 school year. The Funding Division also accurately processed and recorded all audit adjustments it received for the 2005-2006 school year. Specifically, the Funding Division:

- Correctly processed all 110 audits that required adjustments for the 2003-2004 school year. These adjustments totaled \$6,747,501.
- Correctly processed 52 (63 percent) of 83 audits that required adjustments for the 2005-2006 school year. These adjustments totaled \$727,944. The remaining 31 audits were pending processing by the Funding Division.

In addition, state auditors recalculated a sample of school year 2005-2006 audit adjustments for 10 school districts and 1 charter school (these were separate from the 9 school districts and 1 charter school in the survey discussed in Chapter 1). State auditors' recalculated audit adjustments matched the Funding Division's calculations.

Chapter 2-B

The Funding Division Did Not Adequately Track Audit Adjustments

The Funding Division maintained a log of completed audit adjustments; however, the log was not complete and contained some inaccurate entries. Specifically:

- Thirty-eight (35 percent) of 108¹ processed audit adjustments for the 2003-2004 school year were not included in the log.
- None of the 52 processed audit adjustments for the 2005-2006 school year were included in the log.

State auditors traced 52 audit adjustments tested to the Funding Division's automated ledger and determined that the ledger contained an accurate record of the adjustments that were made. However, the ledger does not provide an adequate mechanism for tracking the progress of audit adjustments through the Funding Division's adjustment process.

The Funding Division did not record the dates that audit adjustments were received or track their progress through the Funding Division's adjustment process. An improved tracking process could assist the Agency in monitoring the audit adjustment process and reduce the risk of an adjustment not being processed, which could result in a loss of revenue to the State or to the school district or charter school. In addition, more detailed tracking of audit adjustments could help the Agency ensure that audit adjustments are completed in a timely manner. For example:

- The Funding Division processed 39 (35 percent) of 110 of audit adjustments for the 2003-2004 school year within 90 days of the audits' submission. It took 90 days or longer to complete the remaining 71 adjustments.
- The Funding Division processed 27 (52 percent) of 52 of audit adjustments for the 2005-2006 school year within 90 days of the audits' submission. It took 90 days or longer to complete the remaining 25 adjustments.

Recommendations

The Agency should ensure its Funding Division:

- Develops a method to accurately and completely track audit adjustments.
- Monitors its audit adjustment process to ensure that audit adjustments are completed promptly, following an audit's receipt from the Audits Division.

¹ The Funding Division had not processed 2 of 110 audit adjustments at the time that auditors reviewed the adjustments log; however, these 2 adjustments were processed at a later date.

Management's Response

The Funding Division acknowledges the need for improvement in tracking the processing of audits. Although an audit log exists which could be used to track audits more closely, it has been used inconsistently and there are no written procedures or division training on maintenance of the log.

The Funding Division's Foundation School Program Operations Team will work with the unit's Staff Services Officer to develop a more accurate and complete tracking system that will record audit details and capture the amount of time it takes to process each audit. This project is to be completed within the next 30 days; the contact person is Helen Daniels, Director of State Funding.

The Agency's Policies and Controls Reasonably Ensure the Accuracy and Completeness of Attendance Data; However, It Should Improve User Access Management

The Public Education Information Management System (PEIMS)

PEIMS is the system that contains student and school district-specific information. The Agency uses the data in PEIMS to determine funding and accountability for each school district and charter school.

PEIMS Edit+

PEIMS Edit+ is an application that interfaces with PEIMS that allows school districts and charter schools to report their specific information.

See Appendix 3 for more information on PEIMS.

Source: Texas Education Agency.

The Agency had appropriate policies related to managing users of and overall network security of the PEIMS Edit+ application (see text box for definitions of application). Additionally, the Agency established proper controls to ensure that school district and charter school data entered into PEIMS is complete and reliable. However, the Agency should improve its management of user access to the PEIMS Edit+ data servers and data applications. The lack of proper security management exposes confidential student data to the risk of unauthorized access and modification.

Chapter 3-A

The Agency Has Appropriate Controls to Ensure Data Accuracy and Completeness

The Agency established appropriate policies, and the PEIMS Edit+ application had controls in place to enforce established data standards. Additionally, auditors verified on a test basis that the PEIMS application correctly calculated average daily attendance.

The Agency's Information Technology security policies were appropriate and included the proper management of user access, password maintenance, and security of information technology resources.

While the Agency's password policies were in place for the PEIMS application and file servers, the Agency should strengthen these policies to prevent unauthorized access to confidential student information. For two of the three PEIMS servers reviewed, seven password parameters did not match the settings recommended in *Information Security Controls for State of Texas Data Center Services*. These are the latest technical specifications and standards established by the Department of Information Resources that apply to Texas data centers and should be implemented by the Agency.

The Agency shares responsibility for managing the PEIMS servers with IBM. The Agency is responsible for managing access to the data on the servers and IBM is responsible for maintaining the servers. This is part of the statewide effort to consolidate computer data centers for 27 state agencies. The consolidation project was outsourced to IBM and its partners, which are known as "Team for Texas."

To ensure that the data school districts and charter schools report is consistent and complete, the PEIMS Edit+ application contains edit checks to ensure standardized data formats, values, and content. Only 1 of 249 edit checks on

student attendance records tested did not function as intended; however, the Agency asserted that it corrected this prior to school districts and charter schools making their summer submission of data.

The PEIMS system uses the data that school districts and charter schools report to calculate the average daily attendance for each school district and charter school. This information is used by the Agency's State Funding Division to calculate each school district's and charter school's funding allocation. Auditors' recalculation of the average daily attendance on a test basis using the formulas within the PEIMS application matched the totals previously prepared by the PEIMS system, which indicates that the PEIMS application correctly calculate average daily attendance .

Chapter 3-B

The Agency Should Improve Its Management of User Access to PEIMS Servers and Applications

The Agency should improve its management of user access to the PEIMS Edit+ application by reviewing user access on a timely basis and deactivating or removing accounts of former employees or other accounts that are no longer needed. In addition, each user should be assigned a unique identifier to ensure individual accountability for the access of confidential student data. (See text box for Texas Administrative Code requirements.)

Requirements for Access Management

Title 1, Texas Administrative Code, Section 202.25, applies to all state agencies and requires that each user of information resources be assigned a unique identifier except for situations where a risk analysis demonstrates no need for individual accountability of users. In addition, a user's access authorization should be appropriate and modified or removed when the user's employment or job responsibilities within the state agency change.

The Agency could not verify whether all accounts accessing the PEIMS servers were authorized or valid system accounts; state auditors also identified shared user accounts, which limit user's individual accountability. Specifically:

- State auditors identified 46 user accounts that the Agency confirmed should have been deactivated, and 16 active accounts for which the Agency could not confirm the validity.
- IBM's Team for Texas employees are using a shared administrator account to anonymously log in to the PEIMS server.
- Nine Agency users log in to the databases on the PEIMS server using a shared account that allows unlimited access, including the ability to delete and update data stored on the servers. Four Agency users share access to one database and five Agency users share access to a second database.

In addition, the Agency does not have a formal process for monitoring school district and charter school user access to the PEIMS Edit+ application, and it does not ensure that it deactivates access for users who are no longer a school district or charter school employee or no longer need access to accomplish their individual job duties. Specifically, auditors identified:

- Eleven PEIMS Edit+ users who had Education Service Center level access, which allows a user to enter and modify a school district's or charter school's data, that was no longer needed because the user was no longer a school district or charter school employee or a user's job duties had changed.
- Seventeen additional PEIMS Edit+ accounts that had Education Service Center level access that should have been removed from the application.
- Seven PEIMS Edit+ users who had Superintendent Approval Form level access that was no longer needed because the user was no longer a district's superintendent.
- Seven additional PEIMS Edit+ level accounts with superintendent level access that was inappropriate, such as granting access to a user who is not the superintendent of the school district or charter school.

Recommendations

The Agency should:

- Change its password parameters for its PEIMS Edit+ application to reflect the security standards and defined controls set forth by the Texas Data Center ISeC Technical Specifications Document.
- Review user access to ensure compliance with Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), where users who access the server are authorized and ensure that each has a unique user ID to maintain accountability of users.
- Review user access regularly to ensure compliance with 1 TAC 202.25 where unused accounts are removed and ensure that all employees who maintain an active user ID are those whose job responsibilities require them to access the system.

Management's Response

The Agency should change its password parameters for its PEIMS Edit+ application to reflect the security standards and defined controls set forth by the Texas Data Center ISeC Technical Specifications Document.

Management agrees with the findings. TEA was approved for an exception for the two servers in question to be exempt from adherence to ISeC password settings on June 26, 2009. The Agency is in the process of assessing the impact to certain applications if the settings were to be changed. TEA will work with Team for Texas to identify the requirements for any permanent exceptions and implement the remaining changes to comply with the

Information Security Controls for State of Texas Data Center Services by 1/31/10; the contact person is Wendy Nather, Director of Information Security.

The Agency should review user access to ensure compliance with Title 1, Texas Administrative Code, Section 202.25 (1 TAC 202.25), where users who access the server are authorized and ensure that each has a unique user ID to maintain accountability of users.

Management agrees with the findings. TEA will request that Team for Texas configure the servers to require individual ID logins when privileged access is needed. This will be completed by 11/31/09; the contact person is Wendy Nather, Director of Information Security.

The Agency should review user access regularly to ensure compliance with 1 TAC 202.25 where unused accounts are removed and ensure that all employees who maintain an active user ID are those whose job responsibilities require them to access the system.

Management agrees with the findings. TEA has corrected the user access to PEIMS for those users identified who no longer require access to the application.

The Agency will institute an annual verification of PEIMS logon IDs and privileges for all Agency, school district, and Education Service Center Staff, to begin no later than 2/1/10; the contact person is Wendy Nather, Director of Information Security.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the School Financial Audits Division (Audits Division) at the Texas Education Agency (Agency) has processes that address the risk of over- and under-reporting of attendance data by school districts and charter schools.
- Verify that the Agency adjusts funding for school districts and charter schools that have over- or under-reported average daily attendance.
- Determine whether information systems at the Agency have controls that provide reasonable assurance of the accuracy and completeness of average daily attendance data that school districts and charter schools report.

Scope

The scope of this audit covered the Agency's processes and procedures for auditing student attendance data submitted by school districts and charter schools for the 2005-2006 school year. Auditors also reviewed identified attendance data inconsistencies for school years 2002-2003, 2003-2004, 2005-2006, and 2006-2007. The review of the Agency's audit adjustments process covered school years 2003-2004 and 2005-2006. Auditors also conducted an attendance compliance survey of nine school districts and one charter school that covered attendance data submitted for the 2007-2008 school year, which was the most current data available to auditors.

Methodology

The audit methodology included interviewing Agency staff, performing analysis of student attendance data, reviewing and validating the Audits Division's audit selection and error resolution processes, performing an attendance compliance survey of nine school districts and one charter school, reviewing and validating the State Funding Division's (Funding Division) audit adjustment process, and testing of the Public Education Information Management System (PEIMS).

Information collected and reviewed included the following:

- School Financial Audits Division's policies and procedures.

- State Funding Division's policies and procedures.
- The Agency's *Student Attendance Accounting Handbook*.
- Audits Division desk reviews of attendance data submitted for the 2005-2006 school year.
- Audits Division's attendance identified data inconsistencies for the 2002-2003, 2003-2004, 2005-2006, and 2006-2007, school years.
- PEIMS student attendance data submitted for the 2007-2008 school year and supporting student attendance documentation for the following school districts and charter school:
 - ♦ Northwest Independent School District.
 - ♦ Bushland Independent School District.
 - ♦ Magnolia Independent School District.
 - ♦ Hempstead Independent School District.
 - ♦ DeSoto Independent School District.
 - ♦ Sharyland Independent School District.
 - ♦ Salado Independent School District.
 - ♦ San Felipe-Del Rio Independent School District.
 - ♦ Woodville Independent School District.
 - ♦ A+ Academy Charter School.
- Attendance policies, attendance reports, school calendars, and attendance reconciliations for the nine school districts and one charter school listed above.
- The Agency's information technology policies.

Procedures and tests conducted included the following:

- Conducted interviews with key staff from the Agency's Audits Division and Funding Division regarding the desk audit review process and the Foundation School Program funding adjustment process.
- Conducted interview with key staff from the Agency's Enterprise Data Management Division and external software vendor regarding the PEIMS system and the PEIMS Edit + application.

- Reviewed a sample of the Audits Division’s desk audits for the 2005-2006 school year.
- Reviewed Funding Division’s audit adjustments to the Foundation School Program for the 2003-2004 and 2005-2006 school years.
- Conducted attendance compliance surveys of nine districts and one charter school.
- Tested user access controls and edit controls in the PEIMS system.

Criteria used included the following:

- Texas Education Code, Chapter 42.
- The Agency’s *Student Attendance Accounting Handbook*.
- PEIMS data standards.
- Agency policies and procedures.
- The Agency’s *Financial Accountability System Resource Guide*.
- Texas Administrative Code.
- Information security controls for State of Texas data center services.
- Attendance Policies and Procedures for selected school districts and one charter school.

Project Information

Audit fieldwork was conducted from March 2009 through July 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor’s staff performed the audit:

- Bruce Dempsey, MBA, CIA (Project Manager)
- Shahpar McIntyre, MS, JD, CPA, M/SBT (Assistant Project Manager)
- Arby Gonzales, CFE
- Elizabeth Hunt

- Ashlee Jones, MAcy, CFE, CGAP
- Seorin Kim, MPA, CPA
- Sonya Tao
- James Michael Yerich, CGFM, CPA
- Dana Musgrave, MBA (Quality Control Reviewer)
- Verma Elliott, MBA, CGAP, CIA (Audit Manager)

State Funding of Public School Districts in Texas

Public Education Funding Tiers

Tier 1: Ensures a base funding level for all students and is increased by certain adjustments that apply to a school district, or student.

Tier 2: Provides a “guaranteed yield” per “weighted” student. If a school district’s wealth level is less than an established level per weighted student, state funding will make up the difference.

Tier 3: Consists of two state programs, Instructional Facility Allotment and Existing Debt Allotment, which provide financial assistance to school districts for debt associated with school facilities.

- The Instructional Facility Allotment program provides funding for the purchase, construction, renovation, and expansion of instructional facilities. A school district can use this funding to make debt service payments on qualifying bonds and lease-purchase agreements.
- The Existing Debt Allotment program provides tax rate equalization for local debt service taxes by guaranteeing a specific amount per student in state and local funds for each cent of tax levied to pay for the principal and interest on eligible bonds.

Sources: Texas Education Agency and Legislative Budget Board.

Texas funds public education using a complex three-tiered system (see text box for explanation of the funding tiers). The funding established in each tier is based on three basic variables: (1) total number of students, (2) property values, and (3) tax rates. Additionally, a school district’s funding may be affected by the amount of property wealth per weighted student in a school district. This is called the “equalized wealth level” and it serves to limit the revenue-generating capacity of school districts with higher property values.

A school district’s funding is initially paid based on an estimate of these variables.² Once school districts submit the final data for a school year, the Texas Education Agency (Agency) calculates the actual amount of funding and reconciles any difference by adjusting a school district’s following year’s estimated payment. These funding calculations are accomplished through a series of formulas in the automated Foundation School Program (FSP) system. The amount of state aid per student differs among school districts. Generally, the smaller and less wealthy school districts receive more state funding per student in average daily attendance than larger school districts with a higher total property value.

School districts self-report student attendance information, as well as information about property values and tax rates, into the Public Education Information System (PEIMS) (see Appendix 3 for more information about PEIMS). The Agency uses the data in PEIMS to calculate each school district’s average daily attendance and weighted average daily attendance. PEIMS also includes data about student specific characteristics that may affect a school district’s funding. Examples of these are students who participate in special education, bilingual education, compensatory education, career and technology programs, and gifted and talented programs. These programs receive additional funding through a school district.

The specific amount of adjustments and funding of public education is governed by Texas Education Code, Section 42.2516, which requires that the

² Charter schools receive funding based on students’ average daily attendance data that charter schools submit to the Agency. Charter school funding is also based on property tax data submitted by the resident school districts of the charter school students or on a statewide average formula. The funding formula applied depends on the date that the charter school started operations. Funding for charter schools in operation prior to September 1, 2001, is based on a formula of 50 percent of the state aid that the resident school districts would have received and 50 percent of the statewide average funding per weighted student formula. Charter schools that began operations after September 1, 2001, receive funding based solely on the statewide average funding per weighted student formula.

level of state funding for each school district and charter school must be no less than 2005-2006 or 2006-2007 school year funding levels.

Public Education Information Management System (PEIMS)

The Public Education Information Management System (PEIMS) is a multi-server information management system that receives and processes all public

Quick Facts about PEIMS

- PEIMS is a multi-server system that processes all student attendance data that the Texas Education Agency receives for the approximately 4.4 million students in Texas public schools
- School districts and charter schools self-report the attendance data.
- The data is student-specific and includes demographic and attendance information.
- Attendance data reported in PEIMS is used to determine a school district's or charter school's state funding amount.

Source: Texas Education Agency.

education data provided by Texas public school districts and charter schools. This data includes student attendance, student demographics, personnel, financial, and organization information. The Texas Education Agency (Agency) requires school districts and charter schools to electronically submit their attendance data to PEIMS two times a year (or three times if the data has errors) via standardized computer files, as defined by the PEIMS data standards. Attendance data reported in PEIMS is used to calculate average daily attendance, which determines the amount of Foundation School Program (FSP) funding each school district or charter school receives.

PEIMS Edit+ Application

School districts and charter schools submit their PEIMS data to the Agency via the Internet through a Web-based software application called PEIMS Edit+. The Agency uses this application to validate the data submissions and generate reports. PEIMS Edit+ was developed by an external vendor that is also responsible for monitoring the application and providing technical support.

The Agency's Enterprise Data Management Division must grant PEIMS Edit+ users a Texas Education Agency-Secure Environment (TEASE) account. A user's TEASE account determines the user's level of access in PEIMS Edit+. There are four access levels: (1) view-only access; (2) send/revalidate access, which allows the user to send data, validate data, and run reports; (3) complete/accept file access, which allows the user to approve submitted data; and (4) user administration access, which allows the user to set up and change user profiles. Only school district or charter school superintendents are allowed "superintendent approval form" access, which allows a superintendent to electronically approve his or her district's or charter school's PEIMS submission.

Person Identification Database Enrollment Tracking

The Agency uses the Person Identification Database system to manage and store demographic information on students and teachers. Person Identification Database Enrollment Tracking is an extension within the PEIMS system. It maintains up-to-date enrollment data for all students in Texas public school districts and tracks student enrollments and withdrawals.

The Agency's Analysis of Attendance Data

The Texas Education Agency's State Financial Audits Division (Audits Division) uses automated data analyses of data that school districts and charter schools report into the Public Education Information Management System (PEIMS) to identify inconsistencies or reported attendance in specific programs. Table 2 lists the names and descriptions of type of analysis the Audits Division considers when selecting school districts for auditing.

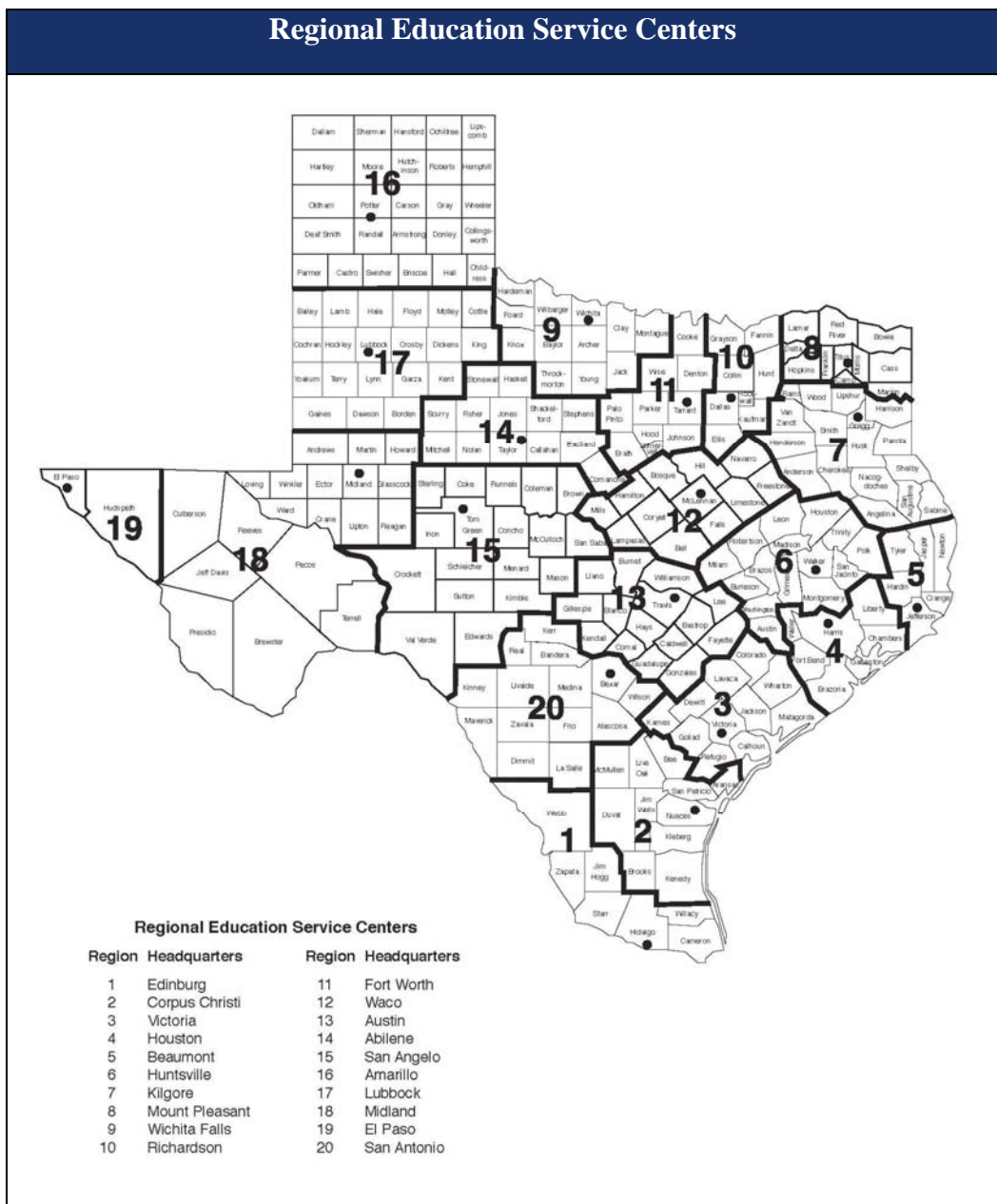
Table 2

Data Analyses Used by Audits Division to Evaluate Student Attendance Data	
Name	Description
Survey of Dual Attendance	Identifies any students who are receiving days of attendance in two or more school districts during the same six-week period. Only students with more than 40 days total attendance in any six-week period are included.
Survey of Students with Perfect Attendance and No Course Completion Indicator	Identifies students in all grades who PEIMS shows are enrolled with perfect attendance for the entire school year with no course completion indicated. Also, it identifies students who were "No Shows" or withdrew during the school year but did not get removed from the attendance accounting system.
Survey of Kindergarten Students Enrolled Under Age Five	Identifies students enrolled by school district or charter school who are younger than 5 years old on September 1 of each school year. Texas Education Code, Section 42.003, states that students must be at least 5 years old on September 1 of the current school year to be eligible for kindergarten.
Survey of Prekindergarten Eligibility	Identifies prekindergarten students throughout the state for whom a school district or charter school claimed eligible days of attendance but did not report required qualifications.
Survey of Bilingual/English as a Second Language (ESL) Education Eligibility Coding on the Snapshot	Identifies students for whom a school district or charter school claimed state funding for bilingual/ESL education eligibility coding without appropriate parental approval. The school district or charter school may count a student for bilingual education funding only after parental approval is received.
Survey of Early Education Students with No Special Education Setting or a Setting of Mainstream or Speech Therapy Only	Identifies and determines the eligibility of students enrolled in an early education program with either (1) no special education instructional setting, (2) a speech therapy setting only, or (3) a special education "mainstream" instructional setting.
Survey of Homebound and Hospital Class Students Earning Career and Technology Contact Hours	Identifies special education students with an instructional setting of "homebound" or "hospital class" who received career and technology contact hours during the same six-week period(s).
Survey of Pregnancy-related Services (PRS)	Identifies students in a given school district or charter school who participated in a PRS program during the school year. This is an error-prone program. ^a
^a Error-prone programs are those programs that have been shown to have a high degree of errors in record keeping.	

The Agency's Regional Education Service Centers

Figure 1 shows the geographical boundaries of the Regional Education Service Centers that the Texas Education Agency (Agency) uses to group school districts and charters schools in Texas. Table 3 on the next page lists the total number of school districts and charter schools in each region (as of the 2005-2006 school year) and the number of school districts and charter schools that the Agency has selected for audit from 2004 through 2008.

Figure 1



Source: State auditors obtained this map from the Texas Education Agency.

Table 3

Education Regions and Number of School Districts and Charter Schools Audited by the Texas Education Agency 2004 through 2008					
Region	Number of School Districts and Charter Schools in Region from 2004 to 2008	Number of School Districts and Charter Schools in Region Selected for an Agency Audit from 2004 to 2008	Percentage of School Districts and Charter Schools in Region Selected for Audit from 2004-through 2008	Foundation School Program Funding in 2006-2007 School Year (in thousands)	Total Student Enrollment in 2006-2007 School Year
1. Edinburg	54	17	31 %	\$1,756,748	371,893
2. Corpus Christi	53	4	8 %	343,675	105,694
3. Victoria	42	3	7 %	147,627	53,009
4. Houston	115	38	33 %	2,300,152	1,011,117
5. Beaumont	38	4	11 %	226,306	80,510
6. Huntsville	64	7	11 %	393,443	156,281
7. Kilgore	104	17	16 %	479,357	163,279
8. Mt. Pleasant	49	3	6 %	211,133	56,625
9. Wichita Falls	42	5	12 %	128,740	39,239
10. Richardson	123	32	26 %	1,452,782	694,194
11. Fort Worth	100	29	29%	1,019,728	498,041
12. Waco	92	11	12 %	542,602	146,555
13. Austin	81	21	26 %	568,736	331,100
14. Abilene	44	2	5 %	178,537	46,825
15. San Angelo	48	1	2 %	203,203	47,501
16. Amarillo	66	4	6 %	224,655	79,153
17. Lubbock	63	4	6 %	244,990	77,589
18. Midland	38	2	5 %	177,855	74,494
19. El Paso	20	5	25 %	747,696	172,532
20. San Antonio	81	18	22 %	1,253,214	371,302
Totals	1,317	227		\$12,601,179	4,576,933

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