

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 five 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 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 5-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 the 5-year period between audits. 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 act contains a process allowing the commissioner or any resident of an audited district to file an appeal with the State Board of Education if the district fails to approve an action plan, fails to implement an approved plan, or adopts a plan substantially different from the auditor's recommendations. The department is to work with the district to resolve issues raised by the appeal. The affected district will be required to furnish a written response to the department and the person lodging the appeal, and the appellant, a school district representative, and the auditor will have an opportunity to testify before the State Board of Education on the matter. The state board may direct subsequent district action and, if the district fails to comply with the order in a timely fashion, may impose one or more of several financial sanctions until compliance is realized.

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 five years, an average of 13 to 14 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 cost of reviews will be \$4.1 million the first year, \$4.2 million the second, and \$4.3 million the third year.

School districts will save the cost of reviews, and by implementing best financial management practices recommendations could realize cost savings of several million dollars.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Education

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 the best financial management practices auditors. The new language differs from the original bill in that the Commissioner of Education would no longer be authorized to appeal a school board's action, and the monetary sanctions against the school board are removed.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
