



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 monitoring under this section.

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

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

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

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

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

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

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

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

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

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

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

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

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

David Swinhurst  
President of the Senate

Jim Cusick  
Speaker of the House

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

Patricia Saw  
Secretary of the Senate

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

Robert Haney  
Chief Clerk of the House

Approved:

20 JUN '03  
Date

Rick Peery  
Governor

FILED IN THE OFFICE OF THE  
SECRETARY OF STATE  
9:30 AM O'CLOCK

JUN 20 2003  
Kevin Shea  
Secretary of State