



Implementation of State Auditor's Recommendations

**Audits Released in January 2004
Through December 2005**

Special Report to

*Assembly Budget Subcommittee #2—
Education Finance*

February 2006
Report No. 2006-406 A2

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

February 28, 2006

2006-406 A2

The Governor of California
Members of the Legislature
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its special report for the Assembly Budget Subcommittee No. 2— Education Finance. This report summarizes the audits and investigations we issued during the previous two years that are within this subcommittee's purview. This report includes the major findings and recommendations, along with the corrective actions auditees reportedly have taken to implement our recommendations.

This information is also available in a special report that is organized by policy areas that generally correspond to the Assembly and Senate standing committees. This special policy area report includes appendices that summarize recommendations that warrant legislative consideration and monetary benefits that auditees could realize if they implemented our recommendations. This special policy area report is available on our Web site at www.bsa.ca.gov. Finally, we notify auditees of the release of these special reports.

Our audit efforts bring the greatest returns when the auditee acts upon our findings and recommendations. This report is one vehicle to ensure that the State's policy makers and managers are aware of the status of corrective action agencies and departments report they have taken. Further, we believe the State's budget process is a good opportunity for the Legislature to explore these issues and, to the extent necessary, reinforce the need for corrective action.

Respectfully Submitted,

ELAINE M. HOWLE
State Auditor

BUREAU OF STATE AUDITS

555 Capitol Mall, Suite 300, Sacramento, California 95814 Telephone: (916) 445-0255 Fax: (916) 327-0019 www.bsa.ca.gov/bsa

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INTRODUCTION

This report summarizes the major findings and recommendations from audit and investigative reports we issued from January 2004 through December 2005, that relate to agencies and departments under the purview of the Assembly Budget Subcommittee No. 2—Education Finance. The purpose of this report is to identify what actions, if any, these auditees have taken in response to our findings and recommendations. We have placed this symbol ☹ in the left-hand margin of the auditee action to identify areas of concern or issues that we believe an auditee has not adequately addressed.

For this report, we have relied upon periodic written responses prepared by auditees to determine whether corrective action has been taken. The Bureau of State Audits' (bureau) policy requests that auditees provide a written response to the audit findings and recommendations before the audit report is initially issued publicly. As a follow-up, we request the auditee to respond at least three times subsequently: at 60 days, six months, and one year after the public release of the audit report. However, we may request an auditee provide a response beyond one year or initiate a follow-up audit if deemed necessary.

We report all instances of substantiated improper governmental activities resulting from our investigative activities to the cognizant state department for corrective action. These departments are required to report the status of their corrective actions every 30 days until all such actions are complete.

Unless otherwise noted, we have not performed any type of review or validation of the corrective actions reported by the auditees. All corrective actions noted in this report were based on responses received by our office as of January 11, 2006.

To obtain copies of the complete audit and investigative reports, access the bureau's Web site at www.bsa.ca.gov or contact the bureau at (916) 445-0255 or TTY (916) 445-0033.

CALIFORNIA COMMISSION ON TEACHER CREDENTIALING

It Could Better Manage Its Credentialing Responsibilities

Audit Highlights . . .

Our review of the credentialing process administered by the California Commission on Teacher Credentialing (commission) revealed the following:

- The commission could better evaluate the effectiveness of the programs it oversees and better measure the performance of the teacher credentialing process.*
 - The commission could take additional steps to improve its processing of credential applications, including focusing its customer service activities.*
 - Several areas of the commission's process for developing program standards lack structure and could be improved.*
 - The commission suspended its continuing accreditation reviews in December 2002 and is evaluating its accreditation policy, and it does not expect to present a revised policy to its governing body until August 2005.*
-

REPORT NUMBER 2004-108, NOVEMBER 2004

California Commission on Teacher Credentialing response as of November 2005

The Joint Legislative Audit Committee asked us to study the effectiveness and efficiency of the teacher credentialing process administered by the California Commission on Teacher Credentialing (commission). Our audit found that the commission could make improvements to better evaluate the programs it oversees and its internal operations, more effectively manage its application processing, and refine how it updates program standards.

Finding #1: The commission has neither fully evaluated nor accurately reported the results of two of its three teacher development programs.

The commission's teacher development programs provide funding for individuals who do not yet meet the requirements for a teaching credential. However, the commission has neither sufficiently evaluated nor accurately reported on two of its three teacher development programs. Specifically, the commission did not have the effectiveness of the California School Paraprofessional Teacher Training Program (paraprofessional program) independently evaluated, as state law requires. The commission indicates that the high cost of this evaluation is a concern, but it could not provide documentation that it sought the funding it believes is needed for the evaluation. Further, because the commission did not develop ways to measure and monitor local program performance, nearly 70 participants whose participation in the paraprofessional program was scheduled to end by December 2003 have not completed credential requirements. In addition, the commission overstated the benefits of the Pre-Internship Teaching Program in a report to the Legislature and could not provide support for

certain assumptions in this report. Finally, although no requirement exists for the commission to evaluate its intern program, commission data indicates that the program has been successful in meeting its objectives.

We recommended that the commission establish performance measures for each of its teacher development programs. We also recommended that the commission ensure that the statistics it presents in its program reports to the Legislature are consistent and that it maintains the supporting documentation for these statistics. Further, we recommended that the commission monitor how local teacher development programs verify the academic progress of participants and establish consequences for underperformance. Finally, we recommended that the commission resume requests for budget increases to fund an independent evaluation of its paraprofessional program that assesses all the requirements in the applicable statute or seek to amend those parts of the law that it believes would be too costly to implement.

Commission's Action: Pending.

The commission indicates that it has established performance measures for each of its teacher development programs. In addition, the commission will now require annual reports from program sponsors on the academic progress of participants and the commission is in the process of establishing consequences for underperformance. Finally, the commission indicates that it plans to submit a budget change proposal to fund the independent evaluation of the paraprofessional program during fiscal year 2007–08.

Finding #2: The commission could improve its ability to measure the performance of preparation programs and the teacher credentialing process.

The commission annually reports on the number of California teaching credentials it issues and the number of emergency permits and credential waivers it grants. However, it provides this information with limited, if any, analysis of the trends associated with these numbers and does not account for external factors that could affect these statistics. In addition, if the commission and the other entities involved worked to remove current obstacles, the commission could use the results of the teaching performance assessment, annual data on retention of teachers, and administrator surveys that are currently in development to better measure various aspects of the process and the preparation programs.

We recommended that the commission include an analysis with the statistics it publishes in its annual reports to provide context to education professionals and policy makers for why the number of credentials, permits, and waivers it issues has changed. We also recommended that the commission collaborate with colleges and universities to determine what funding is necessary to activate and maintain the teaching performance assessment as the enabling legislation envisioned it. It should then request the Legislature and the Governor's Office to authorize this function in future budget

acts. Finally, to aid it in developing performance measures for preparation programs, we recommended that the commission keep itself informed of surveys and reports that other entities prepare.

We also recommended that the Legislature consider giving the commission a specific policy directive to obtain and use data on teacher retention to measure the performance of the process and preparation programs and provide this information in its annual reports.

Commission's Action: Pending.

The commission indicates that it will now include analysis of the statistics presented in its annual reports to provide context to education professionals and policy makers. The commission plans to collaborate with colleges and universities by spring 2006 to determine the funding necessary to activate the teaching performance assessment, and indicates that it will continue to work with colleges and universities to implement the teaching performance assessment on a voluntary basis. In regard to developing performance measures for teacher preparation programs, the commission states that it will keep informed of surveys and reports that other entities prepare, such as the California State University's annual employer survey. Finally, the commission indicates that it is considering the systematic collection of valid and reliable data from surveys and performance assessments as part of its review of the accreditation system.

Legislative Action: Unknown.

Finding #3: The commission has not established specific performance measures for its divisions.

The commission's February 2001 strategic plan (2001 plan), which the commission partially updated just after we completed our fieldwork, was outdated and did not establish the specific performance measures the commission needed to evaluate the results of its current efforts. In addition, the commission does not systematically track whether it is successfully completing the tasks it outlined in the 2001 plan. As a result of inadequate strategic planning, the commission has lacked specific performance measures to guide, evaluate, and improve its efforts.

We recommended that the commission regularly update its strategic plan and quantify performance measures when appropriate in terms of the results the commission wants to achieve. We also recommended that the commission present the commission's governing body (commissioners) with an annual status report on how the commission has achieved the goals and tasks outlined in the strategic plan.

Commission's Action: Pending.

With the appointment of eight new commissioners, and the election of a new chair and vice chair, the commission indicates that it is revisiting how it reviews and updates the strategic plan and quantifies performance measures. The commission anticipates that the strategic plan will be updated in spring 2006, which takes into account the likelihood of new appointments of commissioners for the remaining vacancies. In addition, the commission indicates that the executive director will reformat his annual report of accomplishments to fit the strategic plan.

Finding #4: The commission has made efforts to streamline and remove barriers from the teacher credentialing process.

Although state law mandates the framework of the teacher credentialing process, the commission has the responsibility to analyze the process periodically and report to the Legislature if particular requirements are no longer necessary or need adjustment. In exercising its oversight of the process, the commission has implemented some reforms and is contemplating others. The commission has also worked to reduce the barriers to becoming a California teacher. In addition to these efforts, the commission is considering whether to consolidate the examinations that it requires prospective teachers to pass.

We recommended that the commission continue to consider ways to streamline the process, such as consolidating examinations it requires of credential candidates. If the commission determines that specific credential requirements are no longer necessary, it should seek legislative changes to the applicable statutes.

Commission's Action: Pending.

The commission states that it continues to streamline the teacher credentialing process. For example, the commission indicates that it is gathering information from stakeholders and constituencies, and obtaining technical assistance on the feasibility and advisability of exam consolidation. It anticipates presenting results of this effort to the commissioners for consideration in early 2006.

Finding #5: By better managing its customer service, workload, and technology, the commission could improve application processing.

By focusing its customer service, better managing its workload, and taking full advantage of a new automated application-processing system, the commission could improve its processing of applications. Facing a significant volume of contacts, the commission has not taken sufficient steps to focus its customer service activities. Proper management of customer service is necessary because the large volume of telephone calls and e-mails that the commission receives takes staff away from the task of processing credential applications.

Although the commission typically processes applications for credentials in less than its regulatory processing time of 75 business days, applications go unprocessed for a significant amount of this time because staff members are busy with other duties. The commission has taken some steps to improve its process, including automating certain functions as part of its Teacher Credentialing Service Improvement Project (TCSIP), which is a new automated application processing system that the commission planned to implement in late October 2004. However, the commission has not performed sufficient data analysis to make informed staffing decisions. TCSIP offers tangible time-saving benefits, such as allowing colleges and universities to submit applications electronically and automating the commission's review of online renewals, but the commission does not plan to use either function to its full potential in the foreseeable future. Although online renewals offer the benefit of faster and more efficient processing, the commission has not sufficiently publicized this benefit. The commission could do more to inform teachers about the benefits of online renewal by performing the data analysis necessary to determine where the commission needs to do additional outreach and by better highlighting online renewal's availability and faster processing time. Finally, we noted that the commission could be more efficient by automating how it routes and responds to customers' e-mails.

We recommended that the commission gather meaningful data about the types of questions asked in e-mails to use with data from its telephone system to improve the public information it provides. To ensure the effective management of its application workload, we recommended that the commission routinely monitor the composition of the applications that it has not yet processed and collect and analyze data on the average review times for different types of applications. In addition, we recommended that the commission routinely have TCSIP create automated reports to track the average processing times and list applications that are taking more than 75 business days to process. To optimize the time-saving benefits of TCSIP, we recommended that the commission require colleges and universities to submit credential applications electronically to the extent that is economically feasible and consider expanding TCSIP to allow school districts to submit applications electronically, which would then allow for an automated review of routine applications. Further, to encourage more teachers to renew their credentials online and to determine whether additional outreach efforts may be necessary, we recommended that the commission gather data on and study the percentage of renewals it receives online for different types of credentials. Finally, we recommended that the commission automate its response to and routing of e-mails.

Commission's Action: Partial corrective action taken.

The commission has implemented or is in the process of implementing our recommendations related to customer service and application processing. Specifically, the commission indicated that it now gathers data on the types of questions asked in telephone calls and e-mails, and it uses this data to improve the information provided on its Web site and leaflets. In January 2005, the commission revised its Web site to make it easier to use and to address questions its customers routinely ask.

Since the implementation of TCSIP in February 2005, the commission indicates that it is monitoring average processing time for the four processing teams and that in fiscal year 2006-07 it plans to perform a time management study for each type of application. In addition, the commission is working to develop reports from TCSIP to track average processing times and to identify those applications that have taken more than 75 business days to process.

The commission agrees that it should use automated processes from TCSIP where possible, and thus it has convened a stakeholder workgroup to help it develop a process that would allow all commission stakeholders to electronically submit initial applications. To this end, the commission expects to have a process in place by January 2006 that would allow all colleges and universities to electronically submit applications and it is working towards a goal of February 2007 to have a process in place to use TCSIP to automatically review these applications. Further, in regards to the electronic submission of applications from school districts, although the commission indicates that a number of technological, fiscal, and logistical issues need to be resolved first, it is projecting an implementation date of July 2007 for this process.

To encourage more educators to renew credentials online, the commission indicates that it will gather information on the types of renewals received online and review this data quarterly to determine where to focus its outreach efforts. In addition, the commission indicates its new Web site has a clearly displayed link for online renewals and that both the Web site and its leaflets now state that online renewals are given a priority processing over paper renewals.

Finally, the commission indicates that it has automated its response to and routing of all incoming e-mails.

Finding #6: The commission's process for developing teacher preparation program standards lack structure and could be improved.

The commission is in the midst of a 10-year process of developing program standards that comply with the requirements of Senate Bill 2042, Chapter 548, Statutes of 1998 (act). The commission does not have an overall plan to guide its efforts to finish implementing program standards or its ongoing standard-setting activities. Further, the commission's recent experiences developing program standards to meet the act's requirements offer an opportunity to evaluate how to better manage its future efforts. Our review of five sets of recently developed program standards identified areas in the commission's process for developing program standards that lack structure and could be improved. Among other issues, the commission does not use a methodical approach to form advisory panels of education professionals that assist it in developing program standards; neither does it always put in perspective the results of its field-review surveys to the commissioners when recommending standards for adoption. Finally, we found that the commission had an inadequate policy for ensuring staff maintain important documents related to the development of program standards.

We recommended that the commission develop an overall plan to guide its efforts to update program standards. This plan should describe the commission's process for developing standards and should provide more structure for that process. We also recommended that the commission develop a methodical approach to forming advisory panels to ensure that it objectively appoints education professionals to those panels. Further, to provide commissioners with a better perspective on the results of field-review surveys, we recommended that commission staff report the actual results for each standard. Finally, we recommended that the commission implement a more specific record retention policy.

Commission's Action: Pending.

The commission indicates that it has completed the development and implementation of program standards to meet the act's requirements, with the exception of the teaching performance assessment. By spring 2006, the commission states it will have a plan to guide its ongoing standard-setting activities.

The commission indicates that it has developed a methodical approach to the appointment of advisory panels that includes evaluating a candidate's qualifications against the commission's requirements, and developing candidate rankings for deliberation and discussion.

Further, commission staff agrees with our recommendation to present the actual field-survey results to the commissioners and are prepared to do so the next time program standards are developed.

Finally, the commission indicates it will follow its record retention policy to ensure that important documents are maintained for specified periods of time in case they are needed later for general information, research, or legal proceedings.

Finding #7: The commission suspended its continuing accreditation reviews of colleges and universities.

The commission suspended its continuing accreditation reviews of colleges and universities in December 2002 to allow colleges and universities time to implement the commission's new standards and for it to evaluate its accreditation policy. Continuing accreditation reviews are an important component of the commission's accreditation system and help ensure that colleges and universities operate teacher preparation programs that meet the commission's standards. Although the commission has been working with representatives from colleges and universities to evaluate its accreditation policy, it does not plan to propose a revision to the commissioners until August 2005.

We recommended that the commission promptly resume its continuing accreditation reviews and take steps to complete the evaluation and revision of its accreditation policy promptly.

Commission's Action: Pending.

The commission indicates that the Committee on Accreditation and the Accreditation Study Work Group developed recommendations and options for consideration by the commissioners, which directed commission staff to send the recommendations to colleges and universities for review and comment. The commission notes that should it implement a revised accreditation system, a transitional period would be necessary as colleges and universities have advocated for a 24-month preparation period before being subject to a review.

DEPARTMENT OF HEALTH SERVICES

Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, but School Districts Are Still Losing Millions Each Year in Federal Reimbursements

REPORT NUMBER 2004-125, AUGUST 2005

Department of Health Services' response as of October 2005

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to review the Department of Health Services' (Health Services) administration of the Medi-Cal Administrative Activities program (MAA). Specifically, we were asked to assess the guidelines provided by Health Services to local educational consortia (consortia) and local governmental agencies that administer MAA at the local level. Additionally, the audit committee asked us to evaluate the process by which Health Services selects consortia and local governmental agencies to contract with, how it establishes the payment rates under the terms of the contracts, and how it monitors and evaluates performance of these entities.

We were also asked to evaluate the effectiveness of a sample of consortia and local governmental agencies in administering MAA and in ensuring maximum participation by school districts. Furthermore, we were requested to conduct a survey of school districts regarding their participation in the program.

Finding #1: School districts underused MAA.

Although California school districts received \$91 million in federal MAA funds for fiscal year 2002–03, we estimate that they could have received at least \$53 million more if all school districts had participated in the program and an additional \$4 million more if certain participating school districts fully used the program. School districts we surveyed identified a belief that the program would not be fiscally beneficial as one of the primary factors in their decision not to participate in MAA. However, several of the nonparticipating school districts we surveyed have not recently assessed the costs and benefits of the program, while many of the surveyed school districts that recently performed this assessment have now decided to

Audit Highlights . . .

Our review of the Department of Health Services' (Health Services) administration of the Medi-Cal Administrative Activities program (MAA) revealed the following:

- School districts' participation in, and reimbursements for, MAA have significantly increased since fiscal year 1999–2000.*
 - Despite receiving \$91 million for fiscal year 2002–03, we estimate school districts could have received at least \$57 million more had all school districts participated and certain districts fully used MAA.*
 - Health Services has not performed a sufficient number of local on-site visits.*
 - Simplifying the MAA structure would increase efficiency and simplify program oversight.*
-

participate. The main reasons offered by consortia and local governmental agencies as to why participating school districts did not fully use MAA were that they lacked an experienced MAA coordinator with sufficient time to focus on the program and generally resisted or lacked support for time surveying. If such issues are addressed, school districts may be able to obtain additional MAA reimbursements beyond our \$57 million estimate.

Health Services and the consortia and local governmental agencies that help it administer the program have not done enough to help school districts participate in MAA. Health Services acknowledges that it does not try to increase MAA participation and federally allowable reimbursements, commenting that it has neither a mandate nor the resources to do so. However, it is the state entity in charge of Medi-Cal and could use its contracts with these local entities to mandate their performance of outreach activities designed to increase the use of MAA. None of the local governmental agencies we visited perform any outreach activities. Conversely, consortia have already voluntarily assumed some responsibility for increasing program participation in their regions even though Health Services does not contractually obligate them to do so. Consequently, Health Services has not established ways to measure and improve these outreach efforts. Consortia could improve their outreach to school districts by targeting nonparticipating school districts that have the potential for a high MAA reimbursement and by identifying participating school districts that underuse MAA and helping ensure that they have a correct understanding of those costs that are federally reimbursable.

To help ensure comprehensive MAA participation by school districts and that all federally allowable costs are correctly charged to MAA, Health Services should require consortia to perform outreach activities designed to increase participation and hold them accountable by using appropriate measures of performance. In addition to the mass forms of outreach consortia currently perform, Health Services should require them to periodically identify and contact specific nonparticipating school districts that have potential for high MAA reimbursement and periodically identify and contact participating school districts that appear to be underusing MAA to help ensure that they have a correct understanding of those costs that are federally reimbursable. If Health Services believes it does not have a clear directive from the Legislature to increase participation and reimbursements, it should seek statutory changes.

Health Services' Action: Pending.

Health Services is currently developing draft contract language that would require consortia to outreach to a predetermined percentage of nonparticipating schools in their region on a yearly basis. The schools targeted will be those schools with the highest average daily attendance. The draft language will be forwarded to Health Services' Office of Legal Services for review and approval. Health Services will also require consortia to contact all school districts within their region to help ensure that they have a correct understanding of MAA costs and benefits. This will include providing direction and consultation to those school districts that may be underusing MAA.

Health Services will use the increased outreach percentage of nonparticipating schools in their region as a yearly measurement tool to determine if the consortia met the contractual targets. To verify contractual compliance, this measurement tool will also be used during the site reviews. With the addition of newly approved staff, Health Services will develop a database of participating and nonparticipating school districts, by region, that will be referenced in measuring and verifying outreach activities of the consortia during the site visit.

Finding #2: Without regular site visits, Health Services cannot determine if local entities complied with MAA requirements.

Health Services did not adequately monitor the MAA activities of consortia, local governmental agencies, or school districts. Effective November 2002, the federal Centers for Medicare and Medicaid Services (CMS) required Health Services to perform on-site reviews of each consortium and local governmental agency at least once every four years. According to the CMS requirements, these reviews may be performed in one of two ways. Health Services can elect to review a representative sample of claiming units—the entities within a consortium or local governmental agency, including school districts, that participate in MAA. Alternatively, the consortia and local governmental agencies can focus a portion of their annual single audit on MAA claiming every four years. However, based on our review, neither method was consistently employed.

From October 2001 to February 2005, Health Services conducted site visits of only nine of 31 consortia and local governmental agencies, including some school districts. During that period, it did not conduct any site visits during 2003 and only one during 2004. Additionally, four of the five consortia—the Los Angeles consortium performed some reviews—and three of the four local governmental agencies we reviewed did not perform onsite reviews of school districts. According to the chief of administrative claiming, Health Services has implemented new procedures as a result of its most recent MAA manual approved by CMS in August 2004 and has received the authority to hire additional staff to help implement the new manual, including performing site visits. According to the manual, Health Services is required to conduct site visits at a minimum of three consortia and one local governmental agency each year.

Health Services should ensure that the site visits of consortia, local governmental agencies, and school districts are conducted as required.

Health Services' Action: Pending.

Health Services is currently recruiting additional staff. Some of these staff will be specifically targeted for MAA activities. With these additional staff, the planned oversight, monitoring, site visit, and desk reviews will exceed federal monitoring requirements.

Finding #3: Health Services' existing procedures limit its ability to effectively measure MAA performance.

Health Services has decreased the time it takes to pay an invoice, but its current invoice and accounting processes need to be updated so that it can more easily collect data to monitor MAA and to identify where additional improvements could be made. For instance, because it uses a manual process, which has the potential for human error, Health Services cannot easily determine the total federal reimbursements California schools have received from MAA, identify participating school districts, or ascertain the amount each school district receives in MAA reimbursements. Without these basic statistics, it is difficult for Health Services to adequately monitor the success of the program, and its ability to use statistical methods to identify fraudulent or excessive claims is limited. It also does not require regular reporting from consortia and local governmental agencies on their program efforts (annual reports). Further, Health Services has not established a way to measure the performance of consortia and local governmental agencies, and has not outlined the actions it would take if one of these entities consistently neglected their responsibilities.

Health Services should update its current invoicing and accounting processes so it can more easily collect data on the participation and reimbursement of school districts. Additionally, Health Services should require consortia, and local governmental agencies should they continue to be part of MAA, to prepare annual reports that include participation statistics, outreach efforts and results, and other performance measures Health Services determines to be useful. Health Services should then annually compile the content of these reports into a single, integrated report that is publicly available. Finally, Health Services should develop written criteria for consortia, and local governmental agencies should they continue to be part of MAA, and take appropriate action when performance is unsatisfactory.

Health Services' Action: Partial corrective action taken.

Health Services is proceeding with the MAA Automation project, which will improve and streamline business processes and allow collection of data to perform comparative analyses and management reports to monitor consortia activities. Health Services' proposal for MAA automation has initially received internal approval, and Health Services is currently developing the feasibility study. Health Services is currently recruiting for the newly approved staff positions and will have dedicated resources in the MAA to require consortia and local governmental agencies, should they continue to be a part of MAA, to prepare annual reports, and it will annually compile the content of these reports into a single, integrated report that is publicly available. Additionally, with the newly recruited staff, Health Services will develop written performance criteria for consortia and local governmental agencies, should they continue to be a part of MAA, and take action when performance is unsatisfactory.

Finding #4: Some consortia and local governmental agencies are charging fees in excess of their administrative costs.

School districts are receiving a reduced share of MAA reimbursements because some consortia and local governmental agencies are charging fees that exceed their administrative costs. Furthermore, representatives for three of the local governmental agencies we reviewed stated they do not perform an analysis that would allow them to identify whether the fees they assessed exceeded their costs. State law requires that Health Services contract with a consortium or local governmental agency to claim MAA reimbursement for a participating school district and allows that administering entity to collect a fee from the school district for such a service. We reviewed fees assessed by some of these entities, anticipating that the fees charged would be sufficient to cover the administrative costs incurred. However, we found that the fees charged by some consortia and local governmental agencies exceeded costs. This condition does not result in the State receiving additional MAA funds from the federal government. Rather, it results in the school districts receiving a smaller share of MAA reimbursements than they could have. Health Services stated it has not developed policies governing consortium and local governmental agency fees because it was unaware of the overcharging issue.

Health Services should develop policies on the appropriate level of fees charged by consortia to school districts and the amount of excess earnings and reserves consortia should be allowed to accumulate. Health Services should do the same for local governmental agencies if such entities continue to be part of the program structure.

Health Services' Action: None.



Health Services continues to research this issue. However, it believes this is an issue most appropriately handled at the local level rather than managed by the State. We continue to believe it is critical that Health Services develop policies in this area. If Health Services believes it needs express authority to implement such policies, it should seek it.

Finding #5: Some school districts are losing money because of the terms of their vendor contracts.

School districts we reviewed lost an estimated \$181,000 in federal MAA reimbursements for fiscal year 2003–04 because the fees they paid their vendors were based on the amount of MAA reimbursements they received. Although federal guidance has long prohibited requesting reimbursement for these types of fees, known as contingency fees, it was not until recently that Health Services issued guidance on this topic. In its 2004 MAA manual, Health Services indicates that claims for the costs of administering MAA may not include fees paid to vendors that are based on, or include, contingency fee arrangements. Although this guidance is helpful, it does not identify alternative fee arrangements that would allow federal reimbursement for vendor fees. Consequently, school districts may mistakenly believe vendor fees are not reimbursable under any circumstances.

We recommended that Health Services help school districts invoice for all reimbursable costs, including vendor fees, by issuing clear guidance on how to invoice for these costs and instructing consortia, and local governmental agencies should they continue to be part of MAA, to make sure school districts in their respective regions know how to take advantage of these revenue-enhancing opportunities.

Health Services' Action: Partial corrective action taken.

Health Services currently provides training and issues Policy and Procedure Letters to the consortia to provide technical assistance and guidance to school districts in obtaining all appropriate reimbursement under MAA. With the addition of new staff, Health Services will strengthen its role in providing training, technical assistance, and guidance.

Finding #6: Because of recent changes in billing practices, the federal government could be billed twice for the same services.

Some consortia and local governmental agencies are changing their fee structures to allow school districts to claim their fees as a federal reimbursable MAA cost. However, because consortia and local governmental agencies also request federal reimbursement for their administrative costs, this practice could result in the federal government reimbursing both a consortium or local governmental agency and a school district for the same services. Health Services has not adequately monitored the activities of these entities and therefore was unaware of these changes at the local level. Consequently, Health Services has not created the policies necessary to prevent activities from being claimed twice. Although we did not identify any duplicate payments to the entities we reviewed, the potential for duplicate payments exists.

We recommended that Health Services follow through on its plans to develop a policy governing the claiming of consortium and local governmental agency fees and instruct these entities to carefully monitor school districts' invoices to make sure that any claiming of consortium or local governmental agency fees does not result in duplicate payments.

Health Services' Action: Pending.

Health Services is currently drafting a Policy and Procedure Letter regarding these issues.

Finding #7: Simplifying the MAA structure would make the program more efficient and effective.

MAA would be more efficient and effective if Health Services required participating school districts to submit invoices through a consortium and to use a vendor selected through a regionwide competitive process. School districts currently submit MAA invoices through 11 different consortia and 20 different local governmental agencies. To ensure that it adequately monitors the activities of these two sets of local administering entities, Health Services plans to conduct site visits of all 31 once every

three years. However, although local governmental agencies represent nearly 65 percent of the 31 site visits to be performed, school districts only submit about 24 percent of their MAA invoices through local governmental agencies. Once Health Services implements the additional monitoring activities we recommend, its efforts would be better spent on the 11 consortia that process 76 percent of participating school districts' MAA invoices. Using such an approach, it would likely be able to increase its oversight activities without requiring a significant increase in staff resources.

We also recommended that Health Services require consortia to perform outreach activities designed to increase MAA participation and that it hold consortia accountable using appropriate measures of performance. We did not include local governmental agencies in this recommendation because the jurisdictions of consortia and local governmental agencies overlap. Efforts by both consortia and local governmental agencies to conduct outreach to the same school districts not participating in MAA would be a duplicative use of resources. In addition, if Health Services required simultaneous outreach efforts by consortia and local governmental agencies, it could confuse school districts and reduce the accountability of both entities for their outreach programs. Consortia are best suited to perform outreach to nonparticipating school districts because they are administered by educational units and thus may have a better understanding of school districts' needs than would local governmental agencies, which are typically county health agencies.

Finally, if each school district that needs MAA assistance is required to use a vendor competitively selected by its consortium, instead of entering into an individual contract with a vendor of its own choosing, vendors could be subject to stronger oversight and compelled to reduce their fees. Nearly all of the 27 participating school districts that responded to our survey used private vendors for some sort of MAA assistance. Some of these school districts used a vendor selected by consortia, but because not all consortia contract with vendors, many school districts do not have that option. Other school districts choose to contract directly with private vendors for MAA assistance, even though their consortia also contracted with vendors. This makes oversight of vendors difficult and does not take advantage of the volume discounts consortia may be able to achieve.

Health Services should reduce the number of entities it must oversee and establish clear regional accountability by eliminating the use of local governmental agencies from MAA. Because current state law allows school districts to use either a consortium or a local governmental agency, Health Services will need to seek a change in the law. Additionally, we recommended that Health Services require school districts that choose to use the services of a private vendor, rather than developing the expertise internally, to use a vendor selected by the consortium through a competitive process. Depending on the varying circumstances within each region, a consortium may choose to use a single vendor or to offer school districts the choice from a limited number of vendors, all of which have been competitively selected. Health Services should seek a statutory change if it believes one is needed to implement this recommendation.

Health Services' Action: None.

Health Services is continuing to review this issue. However, it states that regulations specifically allow school districts the option of claiming through either their consortia or their local governmental agency to afford maximum flexibility at the local level. Further, Health Services does not believe its authority can be extended to school districts' selection of vendors to support operations although it states that it continues to agree with the merits of this recommendation. Health Services continues to support maximum flexibility at the local level in order to appropriately manage MAA and select viable vendors based on regional variances.

However, we continue to believe that simplifying the MAA structure to make the program more efficient is important, and thus, Health Services should implement the recommendations. Further, Health Services should seek a statutory change if it believes one is needed to implement the recommendation regarding vendor selection.

DEPARTMENT OF EDUCATION

School Districts' Inconsistent Identification and Redesignation of English Learners Cause Funding Variances and Make Comparisons of Performance Outcomes Difficult

REPORT NUMBER 2004-120, JUNE 2005

Audit Highlights . . .

Our review of the administration and monitoring of English learner programs by the Department of Education (department) and a sample of school districts found that:

- The department provides school districts leeway in setting certain criteria they use to identify students as English learners and to redesignate them as fluent.*
- Differences in school districts' identification and redesignation criteria cause funding variances and a lack of comparability in performance results.*
- Sixty-two percent of the 180 English learners we reviewed, who were candidates for redesignation but had not been redesignated, met school districts' criteria for fluent status but were still counted as English learners.*
- School district and department monitoring of schools' adherence to the redesignation process is inadequate.*
- Of 180 tested expenditures, eight were for unallowable purposes and 43 were questionable.*

continued on next page . . .

The Department of Education's response as of October 2005 and seven school districts' responses as of December 2005¹

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) review the administration and monitoring of state and federal English learner program (English learner) funds at the Department of Education (department) and a sample of school districts. Specifically, the audit committee asked us to examine the processes the department and a sample of school districts use to determine the eligibility of students for the English learner programs, including an evaluation of the criteria used to determine eligibility for these programs and a determination of whether school districts redesignate students once they become fluent in English. In addition, the audit committee asked us to review and evaluate the department's processes for allocating program funds, monitoring local recipients' management and expenditure of program funds, and measuring the effectiveness of the English learner programs. Lastly, the audit committee asked us to, for selected school districts, test a sample of expenditures to determine whether they were used for allowable purposes. We focused our audit on the three main English learner programs whose funds are distributed by the department—federal Title III-Limited English Proficient and Immigrant Students (Title III), state Economic Impact Aid (Impact Aid), and the state English Language Acquisition Program (ELAP). In doing so, we noted the following findings:

¹ The eight school districts we reviewed are: Anaheim Union High School District (Anaheim), Long Beach Unified School District (Long Beach), Los Angeles Unified School District (Los Angeles), Pajaro Valley Unified School District (Pajaro), Sacramento City Unified School District (Sacramento), San Diego City Unified School District (San Diego), San Francisco Unified School District (San Francisco), and Stockton Unified School District (Stockton). As of December 31, 2005, one of the school districts—Sacramento—had submitted neither a two month nor a six month update on their progress in addressing our recommendations.

- ☑ *The department performs limited monitoring of school districts' expenditure of English learner program funds.*
 - ☑ *The State's evaluation of the impact of particular English learner programs is weak.*
 - ☑ *The funding formula for Impact Aid is complicated and likely outdated.*
-

Finding #1: School districts are inconsistent in the criteria they use to identify and redesignate English learners.

Although the department has provided guidance to school districts for establishing criteria to identify students as English learners and to redesignate them as fluent in English, it has allowed the school districts some latitude in setting test score thresholds for redesignation. State law requires school districts to use California English Language Development Test (CELDT) results as the primary indicator for their initial identification of pupils as English learners, and as the first of four specific criteria for redesignating English learners as fluent. State law also requires the department, with the approval of the California State Board of Education (board), to use at least the four criteria defined in law to establish procedures for redesignating English learners to fluent status. In September 2002, the department published board-approved guidance for school districts to use in developing their initial and redesignation criteria. The department's guidance on redesignation criteria consists of student performance on the CELDT and the California Standards Test (CST) in English Language Arts (CST-ELA), as well as a teacher evaluation of academic performance, and parental opinion. However, because these are not regulations, school districts are not required to adhere to the department's guidelines. As a result, school districts' criteria for the initial identification of English learners vary and some school districts have established more stringent criteria that their English learners must meet to attain fluent status when compared to other school districts. In noting this fact, we are not concluding that a particular criterion or scoring standard is preferable to another, but rather that inter-district variation exists.

We recommended that the department, in consultation with stakeholders, establish required initial designation and redesignation criteria related to statewide tests that would provide greater consistency in the English learner population across the State. The department should pursue legislative action, as necessary, to achieve this goal. Further, school districts should ensure that their redesignation criteria include each of the four criteria required by state law for redesignating English learners to fluent status.

Department's Action: None.



The department states that guidance on the redesignation of English learners is in accord with current law and that if the law changes and flexibility is impacted, it will consult with

stakeholders. The department has not taken action to consult with stakeholders or to seek legislation to provide greater consistency in the English learner population across the State.

Stockton's Action: Corrective action taken.

Stockton's redesignation form now covers the four criteria required by state law, including a section for teacher comments and documentation.

Finding #2: Inadequate monitoring of the redesignation process causes students who have met school district criteria for fluency to remain in the English learner population.

Although the schools we reviewed generally were consistent in adhering to their districts' initial identification processes, we noted that most of the same schools failed to fully complete, and in some cases even begin, the process of redesignating English learners to fluent status. In reviewing redesignations at eight school districts, we found that 111 (62 percent) of the 180 English learners we reviewed met the school districts' redesignation criteria but had not been redesignated as fluent in the school district records. We focused our testing on English learners who were candidates for redesignation in fiscal year 2003-04, but who had not been redesignated as fluent. There were about 42,000 such students at the eight school districts we reviewed. Further, although state regulations require school districts to maintain in students' records documentation of input from teachers, other certified staff, and parents regarding redesignation, almost none of the students we reviewed who met school district criteria for fluency had documentation in their records explaining why they were still designated as English learners. We also found that an additional 21 of the students we reviewed had been redesignated as fluent, according to documentation at their schools, but continued to be reported as English learners in the districts' student databases and reported as such to the department. When these databases overstate the number of English learners, school districts receive more funding than they are entitled to receive.

One factor contributing to these errors is the inadequate monitoring effort school districts employ to ensure that schools adhere to their redesignation processes. Another factor is the department's coordinated compliance review (compliance review), which includes testing of fluent students to ensure that they meet redesignation criteria, but did not, until May 2005, include guidance for its consultants to test current English learners' records to ensure that they are designated correctly. Without adequate monitoring, the school districts and the department lack assurance that English learners who have met the criteria for fluency are consistently redesignated.

We recommended that the department require school districts to document redesignation decisions, including decisions against redesignating students who are candidates for fluent status. Further, we recommended that school districts monitor their designation and redesignation processes more closely to ensure that schools actually complete the process and that school district databases accurately reflect all redesignations.

Department's Action: Corrective action taken.

The department's 2005–06 English Learner Monitoring Instrument, posted on its Web site, includes a requirement to document redesignation decisions. The department says that it has distributed this instrument at various meetings and trainings throughout the State.

Anaheim's Action: Partial corrective action taken.

Anaheim stated that in the summer of 2005 it implemented a process for obtaining the latest information on the English proficiency status of students entering its schools from elementary feeder districts and for updating its junior high student records accordingly. Further, Anaheim says that, as of mid-December 2005, it has completed a review of all English learner cumulative files for evidence of previous student redesignation for four of its eight junior high schools and will complete the review of the remaining four junior high schools by the end of January 2006. The district also indicates that in September 2005, English learner administrators and coordinators were trained in English learner program implementation, including reclassification, and that in January 2006 they will meet to review procedures for the annual reclassification process. Finally, the district has established a timeline for monitoring completion of the redesignation process in the winter of 2006.

Long Beach's Action: Partial corrective action taken.

Long Beach stated that in the last six months it has implemented automated procedures to facilitate additional monitoring of student designations and redesignations. In addition, the district's redesignation forms now include a section that clearly indicates why students who were not redesignated have been retained as English learners.

Los Angeles' Action: Corrective action taken.

Los Angeles says that it modified its student information databases to automatically redesignate English learners when they meet district criteria and a parent notification letter has been printed. It also indicated that its Language Acquisition Branch is reviewing district data to monitor the redesignation process for students meeting district criteria.

Pajaro's Action: Corrective action taken.

Pajaro stated that its district Bilingual Program Specialist will collect redesignation binders from school site Bilingual Resource Teachers to verify that the redesignation process is complete for all eligible students. For students that qualify for redesignation based on test scores but who remain English learners, Bilingual Resource Teachers must explain why the student was denied redesignation and attach supporting evidence.

Sacramento's Action: None.

Sacramento did not provide the bureau with a 60-day or six-month response.



San Diego's Action: Partial corrective action taken.

San Diego indicates that it sent a memorandum to all district principals in September 2005 outlining redesignation criteria and that it offered redesignation workshops in November 2005. In addition, it sent a plan for monitoring and evaluating English learner programs to the department in October 2005 that identified staff responsible for supporting and monitoring the redesignation process.

San Francisco's Action: Pending.

San Francisco stated that it held a meeting to begin planning for the development of a redesignation monitoring structure and that it plans to establish this structure by January 31, 2006. It also said that it has begun a review of its data collection process as it relates to redesignations.

Stockton's Action: Partial corrective action taken.

Stockton says it revised its Master Plan to include a section that addresses redesignation monitoring, specifically the timely and accurate data entry of redesignated students. The district also stated that in order to keep its database current, it has reinstated a bi-monthly process to follow up with schools.

Finding #3: Diverse designation and redesignation criteria and inconsistent implementation of these criteria may cause funding variances and hinder comparisons of performance results.

School districts' use of more stringent designation and redesignation criteria, and a failure to implement redesignation criteria, can positively affect their funding and the outcomes for one of the three annual measurable achievement objectives (annual objectives) the department has established in accordance with Title III of the federal No Child Left Behind Act of 2001. Taking in and retaining high-scoring English learners gives some school districts a funding advantage because funding formulas are based on English learner counts. The inclusion and retention of more-advanced students also can be expected to make it easier for these districts to meet one of the annual objectives.

Title III and ELAP funding is linked directly to English learner counts. Impact Aid funding also takes into account the number of English learners. School districts that opt for more stringent designation and redesignation criteria increase their English learner counts and in turn increase their English learner funding. Furthermore, school districts that do not fully implement their established redesignation criteria and thus fail to redesignate all eligible students maintain higher English learner counts and receive higher funding than otherwise would be the case. However, we found varying designation and redesignation criteria, as well as numerous errors in the redesignation process, at all sampled school districts. Therefore, we cannot determine how much of an effect divergent criteria and a failure to implement these criteria have on English learner funding.

Further, school districts with relatively stringent initial designation and redesignation criteria may find it easier to meet the annual objective that measures students' progress in learning English because they tend to have higher percentages of students who

have attained proficiency on the CELDT. According to this objective, English learners attaining proficiency on the CELDT need only maintain their proficiency to meet the annual progress target, while those who do not attain proficiency must improve their proficiency level to meet the objective. Based on statewide department data, in fiscal year 2003–04, 77 percent of English learners who previously attained proficiency on the CELDT were able to maintain their proficiency level, while only 57 percent of English learners who had not attained proficiency on the CELDT were able to improve their overall proficiency level. Consequently, performance results for this objective are probably skewed by the varying redesignation policies, and it is questionable whether these performance results are really comparable across school districts.

We recommended that the department consider changing the annual objective that measures students' annual progress in learning English to offer less incentive for school districts to maintain students as English learners.

Department's Action: None.

The department does not believe that the objective that measures students' annual progress in learning English needs to be revised at this time. It says, however, that it is still developing a common scale for the 2007 annual CELDT and that it will reexamine the growth metric to determine if the use of scale score growth rather than proficiency level gains should be recommended.

Finding #4: Minimal monitoring of expenditures allows school districts to use some funds for unallowable costs.

The total funding for the three largest English learner programs was roughly \$605 million in fiscal year 2003–04, and the department distributed most of these funds to school districts. These funds must be used exclusively for supplementary services and activities geared toward the English learner population for each of the three programs. However, the department provides little guidance to school districts on how to document their use of these funds, and it does limited monitoring of the districts' expenditures, thus increasing the risk that these funds may be used for unintended purposes. In fact, we noted that some school districts have inadequate documentation practices and sometimes spend funds for unallowable or questionable purposes. Of the 180 expenditure transactions we tested, eight were for unallowable purposes and 43 were questionable. Most of the questionable expenditures related to purchases that had no contemporaneous documentation linking the expenditures to English learners or were for transactions for the purchase of goods or services that included non-English learners as well as English learners.

For example, Los Angeles used Title III funds to make two separate purchases, totaling nearly \$3.8 million, of mathematics materials for students in general instructional programs—an unallowed use of these funds. In addition, Stockton and Los Angeles spent ELAP funds at schools or on activities that are not covered by the grant award. Los Angeles spent \$11 million in ELAP funds in fiscal year 2003–04 on an extended

learning program that covered a range of underachieving students in kindergarten through eighth grade, even though ELAP funds are restricted to English learners in grades four through eight.

We recommended that the department perform the steps necessary to ensure the school districts we reviewed have taken appropriate action to resolve their unallowable expenditures of supplemental English learner program funds. In addition, we recommended the department revise the documentation policy it provides to school districts to better ensure that expenditures are directed clearly at activities that serve the English learner programs' target populations. Lastly, to ensure that expenditure files clearly demonstrate that supplemental English learner program funds are directed at activities that serve the law's target populations, we recommended that school districts implement documentation policies.

Department's Action: Partial corrective action taken.

The department says it has sent letters to the school districts requesting documentation or the transferring of funds for the expenditures the bureau cited as unallowable. The department also states it has informed school districts that expenditures charged to English learner programs must have adequate documentation to support all costs, however, it does not indicate that it has revised its documentation policy.

Long Beach's Action: Partial corrective action taken.

Long Beach says that its Office of Program Assistance for Language Minority Students (office) requires all sites to submit strategic plans listing the activities, supplemental materials, and personnel related to allocated categorical funds. For the current year, the office required that sites create new strategic plans rather than rolling over plans from the previous year. The office approves the strategic plans and all related expenditures.

Los Angeles' Action: Partial corrective action taken.

Los Angeles indicates that it conducts periodic training through its Administrative Academy and other training using revised materials that emphasize district documentation policies and English learner program guidelines. It also says that it revisited its Coordinated Compliance Self-Review process to improve the procedures for analyzing school level English learner program expenditures and verifying supporting documentation. Los Angeles also sent a memorandum regarding ELAP, which included budget guidelines and payroll documentation procedures, to its administrators and administrative staff.

Pajaro's Action: Partial corrective action taken.

Pajaro says it planned to train principals in the allowable use of Impact Aid, Title III, and ELAP funds at the start of the 2005–06 school year. In addition, the director of Federal and State Programs now approves all ELAP expenditures.

Sacramento's Action: None.

- Sacramento did not provide the bureau with a 60-day or six-month response.

San Diego's Action: None.

- San Diego says that site administrators must approve all expenditures and that a budget analyst monitors expenditures from the central office. San Diego noted that the department's compliance review training guide does not require a documentation trail, and did not indicate it has taken any steps itself to improve documentation.

San Francisco's Action: Pending.

San Francisco indicated that it plans to develop a monitoring structure for the expenditure of Impact Aid, Title III, and ELAP funds for English learners. It plans to establish this structure by January 31, 2006.

Stockton's Action: Partial corrective action taken.

Stockton indicates that it has established a new database system to document expenditures for programs, training, and materials for English learners, but it does not say whether it has implemented policies to ensure that expenditure files clearly demonstrate that funds are directed at activities that serve the law's target populations.

Finding #5: The department measures English learner progress in language proficiency and academics, but its evaluation of the contribution of specific English learner programs is weak.

In accordance with federal law, the department has defined annual objectives to measure school districts' success in increasing the percentage of English learners who develop and attain English proficiency. However, school districts inconsistently define their English learner populations, so it is difficult to compare one district's success to another's in meeting the targets for one of the annual objectives. Moreover, state law does not require program-specific evaluations of Impact Aid, and a recent independent evaluation of school districts' implementation of ELAP has not provided conclusive evidence or reliable data on ELAP's effectiveness. Without dependable program-specific evaluations, the State cannot isolate and measure the effectiveness of particular English learner programs.

State law required the department to hire independent evaluators to conduct a five-year study on the impact of Proposition 227 and to evaluate ELAP. However, the evaluators have been unable to reach decisive conclusions on the program's value, in part because school districts combine ELAP with other funding sources to pay for a variety of English learner services and because student performance results are not comparable across school districts. Although the evaluators have not been able to provide decisive conclusions, they have provided meaningful insight and several recommendations regarding ELAP based on school districts' responses to a survey.

We recommended that the department review the evaluators' recommendations, subsequent to the submission of the final report in October 2005, and take necessary actions to implement those recommendations it identifies as having merit to ensure that the State benefits from recommendations in reports on the effects of the implementation of Proposition 227 and ELAP.

Department's Action: Pending.

The department says that after the final evaluation is submitted in October 2005, it will study the recommendations from the evaluation and consider possible amendments to current laws to address identified issues.

Finding #6: Funding formulas are generally equitable, but a poverty statistic for impact aid needs updating.

Although the department's formulas for distributing English learner program funds are generally sound, the funding formula for Impact Aid is complicated and likely outdated. The Legislative Analyst's Office (legislative analyst) has observed that the complexity of the Impact Aid formula results in district allocations that are hard to understand based on underlying school district demographics and that the formula is weighted heavily toward poverty. Further, a key statistic used in the formula, the number of students in families receiving assistance under the California Work Opportunity and Responsibility to Kids (CalWORKs) program, has become less reflective of the population of students in poverty and is currently unavailable to the department. The governor vetoed a bill redirecting funds to study the Impact Aid formula, instead directing the Department of Finance and the Secretary of Education to work with the legislative analyst and the department to develop options for restructuring the formula. The department indicates that it will collaborate to develop a long-term solution for allocating Impact Aid funds, including determining an appropriate replacement for the CalWORKs data.

We recommended the department continue to work with the Department of Finance, the legislative analyst, and the Legislature to revise the Impact Aid funding formula to include statistics that better measure the number of students in poverty.

Department's Action: Pending.

The department says that funding proposed in the 2005 Budget Act for studying the Impact Aid formula was vetoed. The department indicates that it is exploring other options to obtain funding to possibly revise the Impact Aid funding formula.

