



LEGISLATIVE BUDGET BOARD

House Bill 3 Efficiency Audit Guidelines

LEGISLATIVE BUDGET BOARD STAFF

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EFFICIENCY AUDIT GUIDELINES

House Bill 3, Eighty-sixth Legislature, 2019, requires the Legislative Budget Board (LBB) to establish guidelines for a school district's efficiency audit. The legislation added Texas Education Code, Section 11.184, which requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate for the maintenance and operations (M&O) of the district. Statute defines an efficiency audit as an investigation of the operations of a school district to examine fiscal management, efficiency, and utilization of resources.

The following are the LBB guidelines that the school district's selected auditor must follow in evaluating the school district. The guidelines identify the scope and areas of investigation, including the effective and efficient use of resources and cost savings or reallocations.

A school district must pay for the costs associated with an efficiency audit. The board of trustees of a school district must select an auditor to conduct an efficiency audit pursuant to the Texas Education Code, Section 11.184(b), no later than four months before the date on which the district proposes to hold an election to adopt an M&O tax rate. The district may select the auditor that conducts its annual audit and may include the efficiency audit as part of the annual audit. The selected auditor must maintain independence from the district and complete the efficiency audit no later than three months after the date the auditor was selected.

The final audit report must be prefaced by a Summary of Audit Results, and include responses to the 20 items included in the Efficiency Audit Guidelines.

The items in the report must be presented as described and in the same order as shown in the guidelines. This requirement includes compiling data for the figures and providing written responses to prompts and questions. The auditor must apply reasonable judgment to explain significant data variances among the district, peer districts, and the state average, because the guidelines do not define this variance. Per student data are defined as per enrolled student. The auditor must provide a short statement describing the findings and any conclusions about the information presented. Unless otherwise stated, the auditor should analyze the most recent school year for which data are available.

Finally, the purpose of the efficiency audit is to provide information to voters regarding a school district's fiscal management, efficiency, and utilization of resources before an election to adopt an M&O tax rate. For this reason, the auditor should use plain language to describe the efficiency audit findings, and provide clear and concise information to help voters make an informed decision.

DISTRICT DATA ON ACCOUNTABILITY, STUDENTS, STAFFING AND FINANCES, WITH PEER AND STATE COMPARISONS

1. **Peer Districts.** Comparisons with peer districts will provide context for the information reported in the efficiency audit. In preparation for the audit, the auditor selects peer districts that are similar to the school district being audited using characteristics such as student enrollment, labor market conditions, student needs, and financial resources. The set of criteria may differ depending on the tool or approach selected by the auditor to identify peer districts.
 - a. Select five to 10 peer districts and list them in **Figure 1**. For each guideline that asks for a peer district comparison, develop a peer district simple average. Maintain the same peer district comparison group throughout the audit. Explain any significant variance from the peer district average in all figures. Two tools for selecting peer districts are included in **Appendix B**. The auditor should document the tool selected.

**FIGURE 1
PEER DISTRICTS**

Peer District Name 1

Peer District Name 2

Peer District Name 3

Peer District Name 4

Peer District Name 5

Peer District Name 6

Peer District Name 7

Peer District Name 8

Peer District Name 9

Peer District Name 10

- b. Describe the methodology used to identify peer districts.
2. **Accountability Rating.** The Texas Education Agency (TEA) annually assigns an A-to-F rating and a corresponding scaled score (1 to 100) to each district and campus based on student assessment results and other accountability measures. Tools for gathering district-level and campus-level accountability data are included in **Appendix B.**
 - a. Record the overall accountability rating and score for the district and the peer district average score.

**FIGURE 2
ACCOUNTABILITY RATING COMPARISON
MOST RECENT SCHOOL YEAR**

	DISTRICT RATING (A-F)	DISTRICT SCORE (1-100)	PEER DISTRICTS AVERAGE SCORE (1-100)
Rating/Score			

- b. Record the accountability rating count for each campus level within the district.

**FIGURE 3
ACCOUNTABILITY RATINGS BY CAMPUS LEVEL
MOST RECENT SCHOOL YEAR**

	ELEMENTARY SCHOOLS	MIDDLE SCHOOLS	HIGH SCHOOLS
A			
B			
C			
D			
F			

- c. List the names of campuses that received an F accountability rating.
 - d. List the names of campuses that are required to implement a campus turnaround plan.
3. **Financial Rating.** The School Financial Integrity Rating System of Texas (FIRST) holds school districts accountable for the quality of their financial management practices.
- a. Record the School FIRST rating for the district.

**FIGURE 4
SCHOOL FIRST RATING
MOST RECENT SCHOOL YEAR**

DISTRICT GRADE (A–F)
Rating

- b. For School FIRST ratings less than A – Superior, list the indicators not met.

4. **Student Characteristics.**

- a. Record the following selection of the district’s student characteristics.

**FIGURE 5
SELECTED STUDENT CHARACTERISTICS
MOST RECENT SCHOOL YEAR**

	TOTAL STUDENT POPULATION COUNT	PERCENTAGE OF STUDENT POPULATION	PEER DISTRICTS AVERAGE PERCENTAGE	STATE AVERAGE PERCENTAGE
Total Students		100%	N/A	N/A
Economically Disadvantaged				
English Learners				
Special Education				
Bilingual/ESL Education				
Career and Technical Education				

- b. Provide the attendance rate for the district, peers, and state.

**FIGURE 6
ATTENDANCE RATE
MOST RECENT SCHOOL YEAR**

	DISTRICT TOTAL	PEER DISTRICTS AVERAGE	STATE AVERAGE
Attendance Rate			

Summarize this attendance rate comparison and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average.

- c. Provide the total enrollment number for each of the last five school years.

FIGURE 7
5-YEAR ENROLLMENT
SCHOOL YEAR RANGE

ENROLLMENT

Most Recent School Year

1 Year Prior

2 Years Prior

3 Years Prior

4 Years Prior

Average annual percentage change
based on the previous five years

Projected Next School Year

5. **District Revenue.** Provide the following indicators related to district revenue.

**FIGURE 8
DISTRICT TAX REVENUE
MOST RECENT SCHOOL YEAR**

	DISTRICT		PEER DISTRICTS AVERAGE		STATE AVERAGE	
	REVENUE PER STUDENT	PERCENTAGE OF TOTAL	REVENUE PER STUDENT	PERCENTAGE OF TOTAL	REVENUE PER STUDENT	PERCENTAGE OF TOTAL
Local M&O Tax (Retained) (1)						
State						
Federal						
Other Local and Intermediate						
Total Revenue						

NOTE: (1) Excludes Debt Service and Recapture.

SOURCE: Texas Education Agency, Public Education Information Management System District Financial Actual Reports.

Summarize these revenue findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average in any category.

6. **District Expenditures.** Provide the following indicators related to district expenditures. If applicable, explain the reasons for the district’s expenditures having exceeded revenues.

**FIGURE 9
DISTRICT ACTUAL OPERATING EXPENDITURES
MOST RECENT SCHOOL YEAR**

	DISTRICT		PEER DISTRICTS AVERAGE		STATE AVERAGE	
	EXPENDITURES PER STUDENT	PERCENTAGE OF TOTAL	EXPENDITURES PER STUDENT	PERCENTAGE OF TOTAL	EXPENDITURES PER STUDENT	PERCENTAGE OF TOTAL
Instruction						
Instructional Resources and Media						
Curriculum and Staff Development						
Instructional Leadership						
School Leadership						
Guidance Counseling Services						
Social Work Services						
Health Services						
Transportation						
Food Service Operation						
Extracurricular						
General Administration						
Plant Maintenance and Operations						
Security and Monitoring Services						
Data Processing Services						

Community Services

Total Operating Expenditures

SOURCE: Texas Education Agency, Public Education Information Management System District Financial Actual Reports.

Summarize these expenditure findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average in any category.

7. **District Payroll Expenditures Summary.** Provide the following indicators for payroll and selected salary district expenditures.

**FIGURE 10
PAYROLL EXPENDITURE SUMMARY
MOST RECENT SCHOOL YEAR**

	DISTRICT	PEER DISTRICTS AVERAGE	STATE AVERAGE
Payroll as a Percentage of All Funds			
Average Teacher Salary			
Average Administrative Salary			
Superintendent Salary			

SOURCE: Texas Education Agency, Public Education Information Management System, District Financial Actual Reports.

Summarize these expenditure findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average in any category.

8. **Fund Balance.** Provide the General Fund operating fund balance, excluding debt service and capital outlay, for the past five years and per student. If the district had a negative fund balance during any of the past five years, explain why it occurred, and how the district addressed it.

**FIGURE 11
GENERAL FUND BALANCE
SCHOOL YEAR RANGE**

YEAR	GENERAL FUND UNASSIGNED FUND BALANCE PER STUDENT	GENERAL FUND UNASSIGNED FUND BALANCE AS A PERCENTAGE OF 3-MONTH OPERATING EXPENDITURES
Current School Year		
1 Year Prior		
2 Years Prior		
3 Years Prior		
4 Years Prior		

Summarize these fund balance findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average in any category.

9. **District Staffing Levels.** Determine the district’s allocation of staff, and student-to-teacher and student-to-total staff ratios.

**FIGURE 12
STAFF RATIO COMPARISONS
MOST RECENT SCHOOL YEAR**

	DISTRICT	PEER DISTRICTS AVERAGE	STATE AVERAGE
Teaching Staff (Percentage of Total Staff)			
Support Staff (Percentage of Total Staff)			
Administrative Staff (Percentage of Total Staff)			
Paraprofessional Staff (Percentage of Total Staff)			
Auxiliary Staff (Percentage of Total Staff)			
Students Per Total Staff			
Students Per Teaching Staff			

Summarize these staffing findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer districts average in any category.

10. **Teacher Turnover Rates.** Determine the district’s teacher turnover rate. Tools for gathering turnover data are included in **Appendix B**, which follows these guidelines.

**FIGURE 13
TEACHER TURNOVER RATES
MOST RECENT SCHOOL YEAR**

	DISTRICT TURNOVER RATE	AVERAGE PEER DISTRICT TURNOVER RATE	STATE AVERAGE TURNOVER RATE
Teachers			

Summarize these turnover findings and any additional information that may be useful when considering the performance and operations of the school district. The auditor should provide specific information to explain any significant variance from the peer district average in any category.

11. **Special Programs.** For each program shown in **Figure 14** that is offered by the district, determine the number of students served, percentage of enrolled students served, program budget, program budget as a percentage of district budget, total staff for the program, and student-to-staff ratio for the program. Provide any additional program information that may be useful when considering the performance and operations of the school district.

**FIGURE 14
SPECIAL PROGRAM CHARACTERISTICS
MOST RECENT SCHOOL YEAR**

	NUMBER OF STUDENTS SERVED	PERCENTAGE OF ENROLLED STUDENTS SERVED	PROGRAM BUDGET PER STUDENT SERVED	PROGRAM BUDGET AS A PERCENTAGE OF DISTRICT BUDGET	TOTAL STAFF FOR PROGRAM	STUDENTS PER TOTAL STAFF FOR PROGRAM
Special Education						
Bilingual Education						
Migrant Programs						
Gifted and Talented Programs						
Career and Technical Education						
Athletics and Extracurricular Activities						
Alternative Education Program/ Disciplinary Alternative Education Program						
Juvenile Justice Alternative Education Program						

ADDITIONAL FINANCIAL, OPERATIONAL, AND ACADEMIC INFORMATION

For the following financial, operational, and academic areas, the auditor should provide relevant indicators and a written discussion that addresses the school district’s efficiency and effectiveness and any cost savings or reallocations. Provide any additional information that may be useful when considering the performance and operations of the school district.

DISTRICT FINANCIAL INFORMATION

12. **State and Regional Resources.** Describe how the district maximizes available resources from state sources and regional education service centers to develop or implement programs or deliver services.
13. **Reporting.** Provide the school district’s annual external audit report’s independent auditor’s opinion as required by the Government Auditing Standards.
14. **Oversight.** If applicable, explain the basis of TEA assigning the district a financial-related monitoring/oversight role during the past three years.
15. **Budget Process.** Answer the following questions in **Figure 15**. Include additional information if needed.

**FIGURE 15
BUDGET PROCESS**

QUESTION	YES/NO NOT APPLICABLE
Does the district's budget planning process include projections for enrollment and staffing?	
Does the district's budget process include monthly and quarterly reviews to determine the status of annual spending?	
Does the district use cost allocation procedures to determine campus budgets and cost centers?	
Does the district analyze educational costs and student needs to determine campus budgets?	

16. **Self-funded Programs.** Identify the district's self-funded programs, if any. Analyze whether program revenues are sufficient to cover program costs.

DISTRICT OPERATIONAL INFORMATION

- 17. **Staffing.** Explain whether district administrators are evaluated annually and, if so, explain how the results inform district operations.
- 18. **Compensation System.** Answer the following questions in **Figure 16**. Include additional information if needed.

**FIGURE 16
COMPENSATION SYSTEM**

QUESTION	YES/NO NOT APPLICABLE
Does the district use salary bonuses or merit pay systems? If yes, explain the performance-based systems and the factors used.	
Do the district's salary ranges include minimum, midpoint, and maximum increments to promote compensation equity based on the employee's education, experience, and other relevant factors?	
Does the district periodically adjust its compensation structure using verifiable salary survey information, benchmarking, and comparable salary data?	
Has the district made any internal equity and/or market adjustments to salaries within the past two years?	

19. **Planning.** Answer the following questions in **Figure 17**. Include additional information if needed.

**FIGURE 17
OPERATIONAL INFORMATION**

QUESTION	YES/NO	NOT APPLICABLE
Does the district develop a District Improvement Plan (DIP) annually?		
Do all campuses in the district develop a Campus Improvement Plan (CIP) annually?		
Does the district have an active and current facilities master plan? If yes, does the district consider these factors to inform the plan:		
Does the district use enrollment projections?		
Does the district analyze facility capacity?		
Does the district evaluate facility condition?		
Does the district have an active and current energy management plan?		
Does the district maintain a clearly defined staffing formula for staff in maintenance, custodial, food service, and transportation?		

DISTRICT ACADEMIC INFORMATION

20. **Programs.** Answer the following questions in **Figure 18**. Include additional information if needed.

FIGURE 18
ACADEMIC INFORMATION

QUESTION	YES/NO	NOT APPLICABLE
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Does the district have a teacher mentoring program?

Are decisions to adopt new programs or discontinue existing programs made based on quantifiable data and research?

When adopting new programs, does the district define expected results?

Does the district analyze student test results at the district and/or campus level to design, implement and/or monitor the use of curriculum and instructional programs?

Does the district modify programs, plan staff development opportunities, or evaluate staff based on analyses of student test results?

APPENDIX A – INSTRUCTIONS FOR AUDITORS TO PREPARE A SUMMARY OF AUDIT RESULTS

Appendix A contains instructions for the Summary of Audit Results. The summary is intended to facilitate the public meeting regarding the proposed tax rate and audit results, pursuant to the Texas Education Code, Section 11.184(h), by providing the public with key information about the proposed tax ratification election and highlights of audit findings. The auditor should use plain language to describe the efficiency audit findings, and provide clear and concise information to help voters make an informed decision.

The summary must include the following information:

- the date of the election to adopt the district’s M&O tax rate;
- dates of the previous three tax ratification elections, the tax rate increase proposed by each, and the results of the elections;
- the current M&O tax rate and the proposed tax rate compared to peer districts and the state average;
- the amount of tax revenue the tax rate change is estimated to generate in the first school year in dollars and as a percentage of the district’s current operating budget;
- the estimated dollar-amount increase, as a result of the M&O tax rate change, to the property tax bill of a single-family residential property at the current average home value of the district;
- a district statement explaining how it intends to spend the additional tax revenue, including any new programs, and consequences if the measure does not pass;
- the district’s accountability rating compared to peer districts;
- the district’s School Financial Integrity Rating System of Texas (FIRST) rating;
- the district’s actual operating expenditures per enrolled student compared to peer districts and the state average; and
- a high-level summary of any significant findings of the efficiency audit, and any district responses to the findings.

APPENDIX B – RESOURCES

PEER DISTRICTS IDENTIFICATION TOOLS

Smart Schools – Texas Smart Schools, established by the Comptroller of Public Accounts as the Financial Allocation for Texas study, is maintained by Texas A&M University. Texas Smart Schools uses statistical modeling to identify school districts with similar overall cost environments based on student enrollment, labor market conditions, and student needs. The Texas Smart Schools website's download page – <http://txsmartschools.org/results/downloads.php> – has downloadable files with up to 40 fiscal peer districts for each school district in the state.

Snapshot – The Texas Education Agency's (TEA) Snapshot: School District Profiles – https://tea.texas.gov/Student_Testing_and_Accountability/Accountability/State_Accountability/Performance_Reporting/Snapshot_School_District_Profiles – includes almost 100 separate data elements to either browse or download. Snapshot's peer search function enables users to group districts according to shared characteristics. Snapshot Peer Search identifies peer districts based on any or a combination of district size, district type, property wealth, and tax rate. As of January 27, 2020, the 2018 Snapshot Peer Search (<https://rptsrv1.tea.texas.gov/perfreport/snapshot/2018/peer.srch.html>) is the most updated.

TOOLS FOR COLLECTING DATA ON STUDENT PERFORMANCE AND DEMOGRAPHICS AND DISTRICT PROGRAMS AND STAFF

TXschools.gov – This website, <https://txschools.gov/>, maintained by TEA, enables users to search for and download Microsoft Excel-ready data showing students' performance at each campus and district in Texas. Performance data are available disaggregated by student groups, including ethnicity and socioeconomic status. The reports also provide information regarding school and district staff, programs, and student demographics.

Texas Academic Performance Report – TEA publishes Texas Academic Performance Reports (TAPR) each year. In addition to student performance and demographic data, the District Staff Information section of TAPR shows the district's turnover rate for teachers and the state average teacher turnover rate. TEA publishes TAPR reports on its website at https://tea.texas.gov/Student_Testing_and_Accountability/Accountability/State_Accountability/Performance_Reporting/Texas_Academic_Performance_Reports

CAMPUS AND DISTRICT INTERVENTIONS AND CAMPUS TURNAROUND PLANS

https://tea.texas.gov/Student_Testing_and_Accountability/Monitoring_and_Interventions/Program_Monitoring_and_Interventions/Campus_Accountability_Interventions_and_Guidance

TOOLS FOR COLLECTING DATA ON SCHOOL DISTRICT FINANCIAL MANAGEMENT

The **School Financial Integrity Rating System of Texas (FIRST)** holds school districts accountable for the quality of their financial management practices. This information may be accessed at

https://tea.texas.gov/Finance_and_Grants/Financial_Accountability/Financial_Integrity_Rating_System_of_Texas_FIRST

PUBLIC EDUCATION INFORMATION MANAGEMENT SYSTEM (PEIMS) OPERATING EXPENDITURES DEFINITIONS

Instruction Expenditures are those for activities that deal directly with the interaction between teachers and students (PEIMS function code 11) and those for payments to juvenile justice alternative education programs (function code 95).

Instructional Resources and Media Expenditures are those used for resource centers and for establishing and maintaining libraries and other major facilities dealing with educational resources and media (function code 12).

Curriculum and Staff Development Expenditures are those used to aid instructional staff in planning, developing, and evaluating the process of providing learning experiences for students (function code 13).

Instructional Leadership Expenditures are those used for managing, directing, supervising, and providing leadership for staff that provide either instructional or instruction-related services (function code 21).

School Leadership (Administration) Expenditures are those used for directing and managing a school campus (function code 23).

Guidance Counseling Services Expenditures are those used for assessing and testing students' abilities, aptitudes, and interests; for counseling students regarding career and educational opportunities; and for helping students establish realistic goals (function code 31).

Social Work Services Expenditures are those used for activities such as investigating and diagnosing student social needs, casework and group work services for children and parents, and interpreting the social needs of students for other staff members (function code 32).

Health Services Expenditures are those used for providing physical health services that are not direct instruction (function code 33).

Transportation Expenditures are those used for student (pupil) transportation (function code 34).

Food Service Operation Expenditures are those used to pay for food service operation (function code 35).

Extracurricular Expenditures (function code 36) are those used for school-sponsored activities outside of the school day that are not essential to the delivery of services for function code 11 (instruction), the function code 20 series (instructional and school leadership) codes, or other function code 30 series (support services—student) codes.

General Administration Expenditures are those used for managing or governing the school district as an overall entity (function code 41). Function code 41 covers multiple activities that are not used directly and exclusively for costs applicable to specific functions. Incremental costs associated with the Texas Education Code, Chapter 41, purchase or sale of weighted average daily attendance (function code 92) and charter school fund-raising (function code 81) also are included in this expenditure.

Plant Maintenance and Operation Expenditures are those used to keep the facilities and grounds open, clean, and comfortable; in effective working condition and in a good state of repair; and insured (function code 51).

Security and Monitoring Services Expenditures are those used for activities to keep student and staff surroundings safe, whether students and staff are in transit to or from school, are on a campus, or are participating in school-sponsored events at another location (function code 52).

Data Processing Services Expenditures are those used for in-house or contracted data processing services (function code 53).

Community Services Expenditures are those for activities or purposes other than regular public education and adult basic education services. These types of expenditures are used for services or activities relating to the community surrounding the district or some segment of the community (function code 61).