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State Auditor

An Audit Report on

The CSCOPE Contract at Education Service Centers

June 2014

Report No. 14-034



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Overall Conclusion

During the 2012-2013 school year, the 20 education service centers in Texas provided access to a curriculum management system known as CSCOPE to 70 percent of school districts in the state, according to information that the Texas Education Service Center Curriculum Collaborative (Collaborative) provided (see text box for additional background information). Those education service centers reported they collected a total of \$73.9 million in revenue from the sale of CSCOPE services to school districts, charter schools, and private schools from September 2005 through August 2013. For that same time period, the education service centers reported a total of \$67.8 million in CSCOPE-related expenditures.

However, auditors were not able to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE because some of the education service centers did not separately track CSCOPE-related expenditure transactions. Some of them also did not separately track CSCOPE-related revenue transactions. As a result, auditors were not able to fully answer the audit objective to determine the amount of revenue and expenditures related to the development, installation, distribution, and marketing of CSCOPE.

According to the Collaborative, CSCOPE was designed to assist public school districts, charter schools, and private schools in teaching the State's required learning standards, Texas Essential Knowledge and Skills (TEKS), for kindergarten through grade 12.

Background

The Legislature established education service centers through Texas Education Code, Section 8.002, to help school districts improve student performance, enable school districts to operate more efficiently and economically, and implement initiatives assigned by the Legislature or the commissioner of education.

In 2005, the Mount Pleasant Education Service Center (Region 8-Mount Pleasant) entered into a contract with National Education Resources, Inc. to develop "Curriculum Developer," a model online curriculum management system that aligned with the State's required learning standards, Texas Essential Knowledge and Skills (TEKS). "Curriculum Developer" later became known as "CSCOPE." CSCOPE's first year of implementation was 2006, with 6 education service centers providing CSCOPE to 182 school districts in Texas.

In 2012, CSCOPE was offered to schools in all 20 of the education service center regions.

During the first year, 182 (15 percent) of the 1,247 school districts in Texas used CSCOPE. By the 2012-2013 school year, 876 (70 percent) of the 1,247 school districts in Texas used CSCOPE.

In 2007, the first 10 education service centers that offered CSCOPE formed the Texas Education Service Center Curriculum Collaborative (Collaborative) through an interlocal agreement. The Collaborative designated the Region 13 Education Service Center in Austin as the fiscal agent for the education service centers that offered CSCOPE. In 2009, the Collaborative filed to incorporate as a 501(c)(3) nonprofit corporation citing authority from the Texas Non-profit Corporation Act and federal Internal Revenue Code.

CSCOPE was renamed "TEKS Resource System" in August 2013. As of March 2014, TEKS Resource System provided much of the same content as CSCOPE. The primary difference was the removal of the lesson plans that had been developed to help teachers present the information from the curriculum.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

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

While the education service centers have broad authority to provide services to Texas schools, there were no specific state funds appropriated for the development, implementation, and operation of CSCOPE. In addition, the education service centers do not have specific contract laws that they must follow to procure services such as the development and implementation of CSCOPE. The broad authority given to education service centers did not require that the procurement of CSCOPE have the approval of either the Texas Education Agency or the State Board of Education.

The education service centers used the provisions of Texas Education Code, Sections 8.053 and 44.031 (see text box for excerpts), to enter into the CSCOPE contracts. From 2006 through 2013, there were 7 CSCOPE contracts (see Appendix 2 for more information). However, auditors did not identify any documentation showing that the education service centers performed a best value assessment for (1) the contracts between the Region 8 Education Service Center (Region 8-Mount Pleasant) and CSCOPE vendor National Education Resources, Inc., or (2) the contract between the Collaborative and National Education Services, Inc., as required by Texas Education Code, Section 44.031.

Texas Education Code

Section 8.053. ADDITIONAL SERVICES.

In addition to the services provided under Section 8.051 and the initiatives implemented under Section 8.052, a regional education service center may: (1) offer any service requested and purchased by any school district or campus in the state; and (2) contract with a public or private entity for services under this subchapter, including the provision of continuing education courses and programs for educators.

Section 44.031. PURCHASING CONTRACTS.

Except as provided by this subchapter, all school district contracts for the purchase of goods and services, except contracts for the purchase of produce or vehicle fuel, valued at \$50,000 or more in the aggregate for each 12-month period shall be made by the method that provides the best value for the district.

Although the contracts for the development and implementation of CSCOPE were procured under the umbrella of applicable broad procurement and contracting laws, auditors identified deficiencies in the processes used to procure and monitor the CSCOPE contracts. The early contracts Region 8-Mount Pleasant executed lacked fundamental provisions to help protect the State's and taxpayers' interests. Unlike state agencies, education service centers are not required to comply with the contracting processes in the *State of Texas Contract Management Guide*. That guide provides a framework for public contracting practices that can help protect the State's and taxpayers' interests.

In addition, while the education service centers generally administered revenues and expenditures assessed or collected in compliance with applicable laws and rules, auditors identified deficiencies in the processes that the education service centers used to track CSCOPE-related revenues and expenditures.

The contracts between Region 8-Mount Pleasant and National Education Resources, Inc. from 2006 through 2011 lacked significant elements.

Region 8-Mount Pleasant asserts that it entered into an initial contract with National Education Resources, Inc. in 2005 to develop an online curriculum management system that would later become known as CSCOPE. From 2006

through 2011, the education service centers that subscribed to CSCOPE paid National Education Resources, Inc. \$8.7 million. Region 8-Mount Pleasant was unable to provide its 2005 contract for the development and implementation of the curriculum management system because it destroyed all supporting documentation from the 2005-2006 school year based on its records retention schedule (see text box). Region 8-Mount Pleasant recorded payments totaling \$73,750 to National Education Resources, Inc. for services related to the development and implementation of the curriculum management system during the time period during which the missing contract would have been in effect.

**Texas Local Government
Records Retention Schedule**

Title 13, Texas Administrative Code, Section 7.125, requires education service centers to comply with the Texas State Library and Archives Commission's records retention schedule and keep all contracts and supporting documentation for four years after the expiration or termination of a contract.

Auditors identified deficiencies in Region 8-Mount Pleasant's procurement of the CSCOPE contracts in effect from 2006 through 2011. Specifically, Region 8-Mount Pleasant did not publish a request for proposals; obtain bid proposals from vendors for the development of the curriculum management system; perform a needs assessment to identify the key elements needed from the vendor; or obtain a legal review of the contracts. The CSCOPE contracts between Region 8-Mount Pleasant and National Education Resources, Inc. for 2006 through 2011 were one page in length and lacked fundamental provisions and details. The contracts did not specify a price, include a description of how fees for services would be calculated, include specifications of deliverables, or provide details on ownership of intellectual property.

The early contracts between National Education Resources, Inc. and Region 8-Mount Pleasant (see Appendix 2) and the contract between National Education Resources, Inc. and the Collaborative included a provision for the CSCOPE vendor to pay Region 8-Mount Pleasant or the Collaborative a 12 percent rebate on all subscription fees paid for CSCOPE. Total rebates paid to the Collaborative were \$1.16 million based on documents provided by the Collaborative. Auditors were not able to determine the total amount of rebates paid to Region 8-Mount Pleasant or the other education service centers.

The first 10 education service centers that offered CSCOPE formed the Collaborative in 2007 through an interlocal agreement.

According to the Collaborative, the 10 education service centers established the Collaborative under the provisions of Texas Government Code, Chapter 791, and Texas Education Code, Chapter 8. In 2007, each of the initial 10 member education service centers paid a \$200,000 flat fee to join the Collaborative.

In 2009, the Collaborative filed to incorporate as a 501(c)(3) nonprofit corporation, citing authority from the Texas Non-profit Corporation Act. In 2010, the Collaborative began contracting on behalf of its members with National Education Resources, Inc. for CSCOPE services.

The CSCOPE contracts the Collaborative executed after 2010 were more closely aligned with state contracting requirements.

The CSCOPE contract between the Collaborative and National Education Resources, Inc. from July 1, 2010, through June 30, 2012, contained 16 of 22 important provisions recommended by the *State of Texas Contract Management Guide*. Those included provisions on pricing structure; specifications of expected deliverables; and details on ownership of intellectual property, including who owns the rights to related data, documents, and computer software. That contract replaced the contract with Region 8-Mount Pleasant and National Education Services, Inc. for the July 1, 2010, through July 1, 2011, time period.

In addition, the CSCOPE contract between the Collaborative and 3rdL Corporation from January 17, 2012, through June 30, 2016, contained 17 of the 22 important provisions recommended by the *State of Texas Contract Management Guide*. Those included provisions on pricing structure, specifications of deliverables, and details on ownership of intellectual property.

The Collaborative did not consistently comply with internal policies and procedures and Texas Education Agency guidance for financial transactions.

The Collaborative reported that it received \$17.6 million in CSCOPE-related revenues (including \$11.4 million in membership fees) from education service centers from fiscal year 2007 through fiscal year 2013. The Collaborative reported \$15.6 million in CSCOPE-related expenditures during that same time period.

The Collaborative designated the Region 13 Education Service Center (Region 13-Austin) as its statewide fiscal agent. The Collaborative accounted for CSCOPE revenues in compliance with Region 13-Austin's policies and procedures and Texas Education Agency guidance for financial transactions. However, the Collaborative did not always account for expenditures in compliance with internal policies and procedures and the Texas Education Agency's financial guidelines. Specifically, of the 60 expenditure transactions tested, 14 (23 percent) lacked proper approvals, 13 (22 percent) did not include adequate support for the amounts, and 10 (17 percent) were not categorized in compliance with Texas Education Agency guidance.

After the Collaborative dissolved, the education service centers formed a new organization to facilitate continuing management of the curriculum management system.

On September 18, 2013, the Collaborative officially dissolved after legislative challenges to its authority to form. In its place, the education service centers formed a new entity through a shared services agreement called the Texas Curriculum Management Program Cooperative (TCMPC, see text box) to facilitate the continuing management of CSCOPE,

Texas Curriculum Management Program Cooperative (TCMPC)

As of March 2014, all 20 education service centers in Texas comprised the TCMPC. The TCMPC's 20-member governing board consists of one representative from each education service center who is selected by each education service center's board of directors.

now called the TEKS Resource System. According to TCMPC management, the Collaborative transferred all intellectual property, with the exception of instructional lessons, to TCMPC prior to the Collaborative's dissolution.

The education service centers generally administered the revenues and expenditures related to the development, installation, distribution, and marketing of CSCOPE; however, they were unable to identify all CSCOPE-related revenues and expenditures.

The 20 education service centers reported to auditors that they:

- Received a total of \$73.9 million in revenues from school districts, charter schools, and private schools for CSCOPE-related services.
- Incurred \$67.8 million in CSCOPE-related expenditures.

In contrast, the school districts, charter schools, and private schools that used CSCOPE any time from the 2006-2007 school year through the 2012-2013 school year reported they paid a total of \$66.2 million to education service centers for CSCOPE-related services.

Auditors were not able to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE. Some of the education service centers did not separately record and track CSCOPE-related revenue and expenditure transactions. The education service centers also were unable to identify the type and amount of any in-kind contributions—such as personnel and staff resources, equipment, or supplies—that they may have provided toward the development and implementation of CSCOPE.

The Texas Education Agency's *Financial Accountability System Resource Guide* provided to education service centers for financial guidance is not sufficient to address the programs and services they provide.

Auditors selected nine education service centers for on-site testing. However, weaknesses in the processes and related controls for financial transactions at the education service centers limited auditors' ability to verify the accuracy of CSCOPE transactions. Each of the education service centers audited stated that it used the Texas Education Agency's *Financial Accountability System Resource Guide* to account for its financial transactions. But that guide was designed for school districts and does not address many of the services provided by the education service centers. As a result, the methods for accounting for CSCOPE revenues and expenditures differed significantly among the nine education service centers audited. In addition, auditors identified weaknesses in the processes and controls for accounting for revenues and expenditures at the education service centers audited. That included one education service center that inappropriately classified 12 CSCOPE transactions totaling \$856,759 as deferred revenue, which was characterized as a "rainy day fund" for CSCOPE. Those weaknesses contributed to the education service centers' inability to document the total cost of their

investment in CSCOPE or to determine whether the investment was a good value for taxpayers.

CSCOPE services, including related fees, varied widely among the nine education service centers audited.

School districts, charter schools, and private schools pay a service fee to the education service center that provides their access to CSCOPE. While the Collaborative provided guidance to the education service centers for calculating the technology fee due to the CSCOPE vendor, the Collaborative did not provide specific guidance on how the education service centers should calculate the support and development fees charged to the school districts, charter schools, and private schools. As a result, the nine education service centers audited did not use a consistent method for calculating the CSCOPE fees charged to the school districts, charter schools and private schools.

In addition, most of the education service centers offered additional CSCOPE-related support services to the school districts, charter schools, and private schools, such as additional days of training or specialized instruction. Only one of the nine education service centers audited did not charge additional fees for those support services. The other eight education service centers provided a variety of additional services with associated fees. For example, one education service center charged \$45 for one person to receive content training, while another education service center charged \$650 per day per presenter for additional instruction.

Summary of Deficiencies Identified

- The education service centers have broad authority to provide services to Texas schools.
- The education service centers are not subject to contract laws that they must follow to procure services such as the development and implementation of CSCOPE.
- The broad authority given to education service centers did not require that the procurement of CSCOPE have the approval of either the Texas Education Agency or State Board of Education.
- The guidance provided to the education service centers in the Texas Education Agency's *Financial Accountability System Resource Guide* was designed for school districts and is not specific enough to ensure that the education service centers follow consistent and defined processes. As a result, the education service centers were unable to identify the amount they spent on CSCOPE, including the amount associated with staff time and effort, or the amount of revenue received from the sale of CSCOPE.

- Auditors were not able to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE because some of the education service centers did not separately track CSCOPE-related revenue and expenditure transactions.
- The early contracts the Region 8-Mount Pleasant executed for CSCOPE lacked important provisions to help protect the State's and taxpayers' interests.
- While the Collaborative provided guidance to the education service centers for calculating the technology fee due to the CSCOPE vendor, it did not provide specific guidance on how the education service centers should calculate the support and development fees charged to the school districts, charter schools, and private schools.

Legislative Recommendations

The Legislature should consider:

- Requiring education service centers through the Texas Education Agency to obtain approval from the Governor and the Legislative Budget Board, with input from the State Board of Education, before they initiate or design/construct a major or statewide curriculum management system.
- Requiring education service centers through the Texas Education Agency to obtain approval from the Governor and the Legislative Budget Board, with input from the State Board of Education, before initiating a major education initiative with significant cost, including curriculum, information systems, and data processing systems that use public school funds.
- Requiring education service centers to comply with the *State of Texas Contract Management Guide*.
- Requiring the Texas Education Agency to evaluate and develop a list of curriculum management systems that conform to the State's required learning standards.
- Requiring each education service center to use an uniform accounting system, adopted by the Texas Education Agency, designed to account for the varied services and activities they provide to their clients and to report the financial resources received or expended related to those services to the Texas Education Agency for an annual evaluation.
- Requiring education service centers to adhere to provisions for the security of information technology resources specified in Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).
- Requiring education service centers to retain all contractual documentation for a period of eight years after the expiration of the contract.

Summary of Management's Response

The management of Region 13-Austin, which is currently the fiscal agent for the Texas Curriculum Management Program Cooperative, agreed with the recommendations addressed to it in this report. Region 13-Austin's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

Summary of Information Technology Review

Auditors performed a limited review of selected general controls governing the operations of two financial systems used to process CSCOPE-related financial transactions at the educational service centers: the Texas Enterprise Information System (TxEIS) and the Internet-based Texas Computer Cooperative Software (ITCCS). Auditors focused that review on administrative access, change management, and backup/recovery of the two systems. Eighteen of the 20 education service centers use either TxEIS or ITCCS. Auditors did not perform any procedures on the systems used by the two education service centers that used systems other than TxEIS or ITCCS.

Auditors reviewed financial data related to CSCOPE from fiscal year 2006 through fiscal year 2013. The review of controls for this audit was limited because controls prior to 2013 were unavailable for detailed review. Additionally, as discussed above, auditors did not perform any procedures on the financial systems in use at two education service centers. In addition, because some education service centers did not separately track CSCOPE transactions, auditors' ability to assess the reliability of the financial data was limited.

Auditors identified information technology weaknesses at the following education service centers: Region 6-Huntsville, Region 7-Kilgore, Region 8-Mount Pleasant, Region 10-Richardson, Region 14-Abilene, and Region 15-San Angelo. Those included weaknesses such as inadequate access controls, lack of a segregation of duties, and a lack of documented policies and procedures. The weaknesses identified could be addressed if the education service centers followed the information security provisions in Title 1, Texas Administrative Code, Chapter 202, which state agencies are required to follow.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to:

- Determine whether the development and implementation of the CSCOPE curriculum management system was conducted in compliance with applicable procurement and contracting laws.
- Determine (1) the amounts of revenues or fees assessed or collected, expenditures, and support or in-kind contributions that education service centers or independent school districts made or authorized for the development, installation, distribution, and marketing of CSCOPE and (2) whether those amounts were administered in compliance with applicable laws and rules.
- Determine (1) the amounts of expenditures, revenues, or in-kind contributions that education service centers made to the Collaborative and (2) whether those amounts were administered in compliance with laws and rules.

The scope of this audit covered activities related to the procurement of CSCOPE, as well as CSCOPE revenues and expenditures, at the 20 education service centers in Texas and the Collaborative for the time period from the initial procurement and development of CSCOPE in 2005 through August 31, 2013.

The audit methodology included gaining an understanding of the CSCOPE system and education service centers' internal controls over CSCOPE transactions; identifying relevant criteria; assessing the risks of fraud and noncompliance; and collecting and reviewing financial information related to CSCOPE revenues and expenditures from all 20 education service centers and the Collaborative. Additionally, the audit methodology included collecting and reviewing documentation related to the procurement of CSCOPE, testing CSCOPE revenue and expenditure transactions, analyzing and evaluating the results of those tests, identifying in-kind transactions, and conducting interviews with the management and staff of nine education service centers that auditors selected for on-site testing through a risk assessment process.

Auditors communicated in writing other, less significant issues related to information technology controls, approvals, and segregation of duties, separately to the management of the education service centers and the TCMPC.

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Detailed Results

Chapter 1

There Are No Specific Contract Laws That Education Service Centers Must Follow to Procure Services Such as the Development and Implementation of CSCOPE

Texas education service centers do not have specific contract laws that they must follow to procure services such as the development and implementation of the CSCOPE curriculum management system (CSCOPE). The broad authority given to education service centers did not require that the procurement of CSCOPE have the approval of either the Texas Education Agency or the State Board of Education.

Auditors identified opportunities for improvement in the procurement and monitoring of the CSCOPE contracts. The early contracts the Region 8 Education Service Center (Region 8-Mount Pleasant) executed lacked important provisions to help protect the State's and taxpayers' interests. Contracts entered into by the Texas Education Service Center Curriculum Collaborative (Collaborative) with CSCOPE vendors after 2010 were more detailed and included many important provisions to help protect the parties to the contracts.

Chapter 1-A

The Contracts for the Development and Implementation of CSCOPE Were Not Required to Comply with Specific Contracting Laws

Texas education service centers do not have specific contracting laws they must follow to procure services such as the development and implementation of the CSCOPE. The education services centers are governed by Texas Education Code, Chapter 8; however, that statute does not include specific contracting requirements.

Texas Education Code, Section 8.102, requires each education service center to report to the Texas Education Agency audited or budgeted financial information and any other information requested by the commissioner of education. In addition, Texas Education Code, Section 8.103, requires the commissioner of education to conduct an annual evaluation of each education service center that includes an audit of the education service center's finances. Auditors verified that all 20 education service centers had submitted audited financial statements to the Texas Education Agency for fiscal year 2012.

The broad contracting authority given to education service centers does not provide the guidance necessary to help protect the State's and taxpayers' interests in the procurement process. For example, neither the Texas Education Agency nor the State Board of Education approved the

procurement, content, or development of the CSCOPE curriculum management system. However, current statute does not require either the Texas Education Agency or the State Board of Education to review and/or approve curriculum management systems such as CSCOPE or ensure that a curriculum management system aligns with the State's required learning standards, Texas Essential Knowledge and Skills (TEKS), for kindergarten through grade 12.

For the CSCOPE contracts, the education service centers reportedly used the authority given to education service centers under the following sections of the Texas Education Code:

- Texas Education Code, Section 8.053, which authorizes an education service center to (1) offer any service requested and purchased by any school district or campus in the state and (2) contract with a public or private entity for services under this subchapter.
- Texas Education Code, Section 44.031, which states that all school district contracts, except for the purchase of produce or vehicle fuel, valued at \$50,000 or more in the aggregate are to be made by the method that provides the best value.

However, auditors did not identify any documentation showing that the education service centers performed a best value assessment required by Texas Education Code, Section 44.031, for the contracts between Region 8–Mount Pleasant and National Education Resources, Inc., or for the contract between the Collaborative and National Education Resources, Inc.

According to Title 19, Texas Administrative Code, Section 109.41, education service centers should follow the Texas Education Agency's *Financial Accountability System Resource Guide*, which establishes the rules for financial accounting for education service centers, charter schools, and school districts. **However, that guide does not specify provisions to direct the processes for the procurement and monitoring of contracts.** For example, the Texas Education Agency's *Financial Accountability System Resource Guide* does not recommend that certain provisions be included in contracts that are usually required in contracts procured by state agencies. Those include provisions addressing the right to audit, dispute resolution, ownership of intellectual property, and the use and protection of confidential information. Unlike state agencies, education center service centers are not required to comply with the contracting processes in the *State of Texas Contract Management Guide*. The absence of these important provisions could result in contracts that do not protect the interests of the parties to the contract or taxpayers.

The CSCOPE Contracts That Region 8-Mount Pleasant Executed from 2006 through 2011 Lacked Many Fundamental Provisions

Region 8-Mount Pleasant contracted directly with National Education Resources, Inc. for CSCOPE services from 2006 through 2011. National Education Resources, Inc. was paid at least \$11.7 million¹ by education service centers from fiscal years 2006 through 2012 for the development, implementation, and subscription fees for CSCOPE.

Texas Local Government Records Retention Schedule

Title 13, Texas Administrative Code, Section 7.125, requires local governments (including education service centers) to comply with the Texas State Library and Archives Commission's (Commission) records retention schedule. According to the Commission's records retention schedule, education service centers must keep all contracts and supporting documentation for four years after the expiration or termination of a contract.

Region 8-Mount Pleasant management asserted that it was unable to provide its 2005 contract for the development and implementation of a curriculum management system because it destroyed all supporting documentation from the 2005-2006 school year based on its records retention schedule (see text box for more information on the records retention requirements). Region 8-Mount Pleasant recorded payments totaling \$73,750 to National Education Resources, Inc. during the time period during which the missing contract would have been in effect.

Auditors identified deficiencies in the procurement of the CSCOPE contracts by Region 8-Mount Pleasant from 2006 through 2011. Specifically, Region 8-Mount Pleasant **did not**:

- Perform a needs assessment to identify the key elements needed from a provider of the CSCOPE services.
- Publish requests for proposals for CSCOPE services.
- Obtain bid proposals from other vendors to develop the CSCOPE curriculum management system.
- Obtain a legal review of the contracts to ensure they contained elements to protect the interests of the education service centers and the school districts.

However, the broad authority granted to education service centers did not require Region 8-Mount Pleasant to perform a needs assessment prior to entering into contracts or procure the contracts through a competitive bid process. The president of National Education Resources, Inc. asserted that his company was a "sole source provider" and that there was no other company or firm that sold like items or products on the market that would have served the same purpose or function of CSCOPE. However, a report the Legislative Budget Board issued in January 2009 identified at least two other curriculum

¹ National Education Resources, Inc. received \$8.7 million from the education service centers from fiscal years 2006 through 2011, and it received \$3.0 million from the education service centers and the Collaborative in fiscal year 2012.

management systems in place in 2008 in Texas schools besides CSCOPE that had been developed by other education service centers.

The CSCOPE contracts for 2006 through 2011 were one page in length and lacked many important provisions (see Appendix 2 for an example of the one-page contracts). Not included in the contracts were:

- A specified price, including how the fees for the services would be calculated.
- Payment terms.
- Provisions for terminating the contract.
- Allocation of ownership of the intellectual property component of CSCOPE.

National Education Resources, Inc., the vendor for CSCOPE, received \$8.7 million from fiscal years 2006 through 2011 from the 19 education service centers that subscribed to CSCOPE.² However, only Region 8-Mount Pleasant had a contract with National Education Resources, Inc. Each of the other 18 education service centers that provided CSCOPE to school districts, charter schools, and private schools were invoiced directly by National Education Resources, Inc. and paid their fees for CSCOPE services directly to National Education Resources, Inc. even though there were no contracts in place.

Auditors identified additional important information that was missing from the contracts from 2006 to 2011 that should have caused concern to the education service centers that were paying the vendor for CSCOPE:

- The name “CSCOPE” was not referenced in the contracts. Instead, the contracts referenced a product named “Curriculum Developer.” In the contracts, the vendor agreed to provide set-up and site licenses for “Curriculum Developer” for Region 8-Mount Pleasant school districts.
- The contracts did not include measureable milestones, benchmarks, or performance standards that could be used to determine whether National Education Resources, Inc. was providing contract deliverables.
- After the Collaborative was formed in 2007 and the Region 13 Education Service Center (Region 13–Austin) became the Collaborative’s fiscal agent, the contracts remained between Region 8-Mount Pleasant and National Education Resources, Inc. until a new contract was signed in March 2011.

² National Education Resources, Inc. received \$8.7 million from the education service centers from fiscal years 2006 through 2011, and it received \$3.0 million from the education service centers and the Collaborative in fiscal year 2012.

Auditors identified a contract provision in each of the five one-page contracts between Region 8-Mount Pleasant and National Education Resources, Inc. under which National Education Resources, Inc. agreed to pay Region 8-Mount Pleasant a 12 percent share of all annual subscription fees received (see Appendix 2 for a listing of those contracts). During audit testing of transactions at the Region 1 Education Service Center (Region 1-Edinburg), Region 7 Education Service Center (Region 7-Kilgore), and Region 10 Education Service Center (Region 10-Richardson), auditors identified instances in which those three education service centers received a rebate by deducting 12 percent from the invoiced subscription fees that they paid to National Education Resources, Inc. for CSCOPE services, even though those three education service centers did not have a written agreement with National Education Resources, Inc. (see Chapter 2-C for more information about rebates identified during testing).

Chapter 1-C

The CSCOPE Contracts Entered Into by the Collaborative Contained Contract Terms That Provided Better Protection for Both Parties

Before entering into any CSCOPE-related contract, the Collaborative contracted with Gibson Consulting Group for a technology review of CSCOPE. That technology review included an assessment of the technology management of CSCOPE. The report from that review, *A Technology Review of: CSCOPE*, which was issued in August 2010, identified “unnecessary and unacceptable risks” for all parties due to the lack of formal agreements between the Collaborative and the vendor. The report provided examples of provisions commonly found in technology agreements that it recommended the Collaborative include in its contract with National Education Resources, Inc. Those included provisions that addressed fees, terms of payment, ownership, confidentiality, nondisclosure, service-level agreements, and the right to use the technology. In response to the report, the Collaborative entered into a contract with National Education Resources, Inc., that replaced the existing contract between Region 8-Mount Pleasant and National Education Resources, Inc.

That new contract between the Collaborative and National Education Resources, Inc. was effective from July 1, 2010, through June 30, 2012, and was signed by the president of National Education Resources, Inc. on March 21, 2011, and by the chairman of the Collaborative on March 31, 2011. The new contract:

- Included the recommended contract provisions from the technology report discussed above, and it included contractual provisions to protect the intellectual property rights related to CSCOPE. In addition, the new contract contained 16 of 22 important provisions recommended by the *State of Texas Contract Management Guide*. However, the contract’s

right to audit clause specified only a technology audit and did not provide for an outside entity to audit for contract compliance.

- Provided for a compensation and billing agreement, which included a specific pricing structure for the amounts the education service center would pay to National Education Resources, Inc. for the site licenses sold to the school districts, charter schools, and private schools.
- Retained the provision for National Education Resources, Inc. to pay the Collaborative an amount equal to 12 percent of annual subscription fees that it receives from the education service centers. The Collaborative received \$1.16 million from National Education Resources, Inc. in rebates for CSCOPE services sold to the school districts, charter schools, and private schools, based on the documents provided to auditors (see Chapter 2 for more information).

A new vendor was selected for the CSCOPE contract in January 2012. The Collaborative issued a request for proposals for CSCOPE technology services on September 16, 2011, with responses due by October 14, 2011. The three

finalists were invited to a vendor presentation in Austin on November 30, 2011. The presentations were evaluated and scored on criteria in Texas Education Code, Section 44.031 (see text box). The contract was awarded to the vendor 3rdL Corporation, which scored highest in the evaluation process. The new contract between the Collaborative and 3rdL Corporation contained language that was almost identical to language in the contract between the Collaborative and National Education Resources, Inc.

The term of the Collaborative's new contract with the 3rdL Corporation overlapped with the term of Collaborative's contract with National Education Resources, Inc. by six months. The National Education Resources, Inc. contract ended on June 30, 2012; the Collaborative entered into the contract with 3rdL Corporation on January 17, 2012. The National Education Resources, Inc. contract contained a statement that it would offer six months of transition services to the Collaborative, and the overlap between the two contracts allowed for the transition of CSCOPE from National Education Resources, Inc. to the 3rdL Corporation.

The CSCOPE contract between the Collaborative and 3rdL Corporation contained 17 of the 22 important provisions recommended by the *State of Texas Contract Management Guide*, including a technology audit clause. However, it did not include the standard right to audit clause. The standard right to audit clause includes the right for financial or contract compliance audits by outside auditors. Not including the other portions of the right to audit clause means that the 3rdL Corporation is not required to allow an outside auditor to review compliance with the terms of the contract. It should

**Texas Education Code,
Section 44.031**

Texas Education Code, Section 44.031(b), states that in determining to whom to award a contract, a school district should consider:

- Purchase price.
- Reputation of the vendor and of the vendor's goods or services.
- Quality of the vendor's goods or services.
- Extent to which the goods or services meet the district's needs.
- Vendor's past relationship with the district.
- Total long-term cost to the district to acquire the vendor's goods or services.

This list includes only the provisions from the statute that are related to contractual provisions.

be noted that the contract also did not include a provision for the 3rdL Corporation to rebate a percentage of the subscription fees paid by the education service centers to the Collaborative. That contract is in effect until June 30, 2016.

The Collaborative Did Not Consistently Comply with Internal Policies and Procedures and Texas Education Agency Guidance for Financial Transactions

The Collaborative was formed in 2007 through an interlocal agreement between 10 education service centers. In 2009, the Collaborative filed to incorporate as a 501(c)(3) nonprofit corporation citing authority from the Texas Non-profit Corporation Act. The Collaborative officially dissolved in September 2013 after legislative challenges to its authority to form. Subsequently, the 20 Texas education service centers entered into shared-services agreements and formed the Texas Curriculum Management Program Cooperative (TCMPC).

The Collaborative collected \$17.6 million in revenues and expended \$15.6 million from fiscal year 2007 through fiscal year 2013. The Collaborative did not always account for expenditures in compliance with internal policies and procedures and the Texas Education Agency’s financial guidelines. However, the Collaborative did track and account for revenues in compliance with its internal policies and procedures and Texas Education Agency financial guidelines.

Chapter 2-A

The Collaborative Asserts That It Was Formed Legally

Ten education service centers entered into interlocal agreements in 2007, citing authority from Chapter 791 of the Texas Government Code and Chapter 8 of the Texas Education Code, to form the Collaborative (see text box for additional information about the statutory language). The 10 education service centers were Region 1–Edinburg, Region 2–Corpus Christi, Region 6–Huntsville, Region 7–Kilgore, Region 8–Mt. Pleasant, Region 10–Richardson, Region 13–Austin, Region 16–Amarillo, Region 19–El Paso, and Region 20–San Antonio. Each of the 10 initial member education service centers paid a \$200,000 flat fee to join the Collaborative. According to the Collaborative, its mission was to provide high-quality curriculum and instruction materials, resources, and professional development to help school districts ensure that all students meet the Texas Essential Knowledge and Skills (TEKS) standards.

In 2009, the Collaborative organized as a nonprofit corporation, citing Chapter 22 of the Texas Business Organization Code (the Non-profit Corporation Act) as authorization (see text box for statutory language). The Collaborative asserted that it formed as a nonprofit to protect the intellectual property related to the

Texas Government Code

Section 791.001. The purpose of this chapter is to increase the efficiency and effectiveness of local governments by authorizing them to contract, to the greatest possible extent, with one another and with agencies of the state.

Texas Education Code

Section 8.053. In addition to the services provided under Section 8.051 and the initiatives implemented under Section 8.052, a regional education service center may:

- (1) offer any service requested and purchased by any school district or campus in the state; and
- (2) contract with a public or private entity for services under this subchapter, including the provision of continuing education courses and programs for educators.

Texas Non-profit Corporation Act

Texas Business Organizations Code, Section 22.051. A nonprofit corporation may be formed for any lawful purpose or purposes not expressly prohibited under this chapter or Chapter 2, including any purpose described by Section 2.002.

development of the CSCOPE curriculum and lesson plans. The Collaborative designated Region 13-Austin as its statewide fiscal agent.

TEKS Resource System

CSCOPE was renamed the “TEKS Resource System” in August 2013. As of March 2014, the TEKS Resource System provided much of the same content as CSCOPE. The primary difference was the removal of the lesson plans that had been developed to help teachers present the information from the curriculum.

The Collaborative officially dissolved on September 18, 2013, after legislative challenges to its authority to form. In its place, the education service centers formed TCMPC through a shared-services agreement to facilitate continuing management of its curriculum management system, now called the TEKS Resource System (formerly CSCOPE, see text box for more information). TCMPC management reported to auditors that the Collaborative transferred its assets to TCMPC, with the exception of its instructional lessons.

Chapter 2-B

The Collaborative Did Not Account for Expenditures in Compliance with Internal Policies and Procedures and Texas Education Agency Guidance

The Collaborative was responsible for all of the budgeting, accounting, and personnel related to the CSCOPE service agreements with education service centers. The Collaborative reported \$15.6 million in expenditures from fiscal year 2007 to fiscal year 2013. However, it did not always account for those expenditures appropriately. Auditors identified expenditures that lacked adequate support, lacked proper approvals, and were not appropriately categorized.

Auditors tested 60 expenditure transactions. Of the 60 expenditures tested, 30 (50 percent) had at least one error. For 13 (22 percent) of the 60 expenditures tested, the Collaborative lacked adequate support. According to the records retention schedule adopted by the Collaborative and Region 13-Austin, accounts payable and disbursement records should be maintained through the fiscal year end date of the payment plus five years. In addition, according to the Texas Education Agency’s *Financial Accountability System Resource Guide*, accurate record keeping and documentation should be a fundamental element of the procurement process. The errors included missing documentation, a lack of a documented calculation methodology to allocate expenditures, or inconsistent calculation methodologies for allocating expenditures. As a result, \$302,478 of the \$3,217,490 in expenditures tested could not be fully supported by the documentation provided by Region 13–Austin and the Collaborative.

In addition, 14 (23 percent) of the 60 expenditure transactions tested lacked evidence showing the transactions were reviewed and approved in compliance with Region 13-Austin’s policies and procedures. Region 13–Austin has a documented approval process based on dollar thresholds (see Table 1 on the next page).

Table 1

| Region 13-Austin's Approval Process for Expenditures | |
|--|--------------------------------------|
| Expenditure Amount | Required Approval Level ^a |
| Up to \$1,000 | Coordinator |
| \$1,000-\$5,000 | Senior Coordinator |
| \$5,000-\$10,000 | Director/Associate Director |
| \$10,000 - \$20,000 | Deputy Executive Director |
| \$20,000-\$50,000 | Executive Director |
| More than \$50,000 | Board of Directors |

^a Each dollar approval level requires approval from the position preceding that level, with the exception of the approvals of the board of directors.

Source: Region 13-Austin.

The 14 expenditures transactions totaled \$948,149 and either lacked a documented approval or had a documented approval that was not on the required level. Five (36 percent) of those 14 expenditure transactions were journal entry postings, such as accounting for payroll and office space (see text box for more information). According to the Texas Education Agency's *Financial Accountability System Resource Guide*, journal entries should be reviewed and approved, with a segregation of duties. However, Region 13–Austin and the Collaborative did not have a process to review and approve journal entries. The lack of a documented approval process for journal entries could have a significant effect on the accounting records and result in fraudulent transactions or a misclassification of funds to the wrong budget codes.

Definition of a Journal Entry
 A journal entry is the record of accounting information for a business transaction. The entry is made in a journal and then posted to a ledger. The journal entry has equal debit and credit amounts, and it usually includes a one-sentence explanation of the purpose of the transaction.
 Source: *Dictionary of Accounting Terms*, Barron's Business Guides, Third Edition.

For 10 (17 percent) of the 60 expenditures tested, Region 13–Austin and the Collaborative did not use the appropriate categorization for the expenditure transaction. Specifically, a total of \$1.3 million in expenditure transactions tested were not appropriately categorized in the Collaborative's general ledger. While that type of error is less significant than the errors discussed above, it could have affected management decisions regarding budgeting for the Collaborative because the Collaborative budgeted by expenditure category.

It should be noted that for 59 (98 percent) of the 60 expenditures tested, auditors determined that the expenditures were related to CSCOPE. The one error noted was related to a \$1,857 travel expenditure that lacked documentation identifying that it was related to CSCOPE.

Recommendations to the Fiscal Agent of the TCMPC

The fiscal agent of the TCMPC should:

- Retain sufficient documentation, as required by its records retention schedule, to support the appropriateness of expenditures.
- Ensure that expenditure transactions and journal entries are reviewed and approved in compliance with policies and procedures and Texas Education Agency guidance.
- Appropriately categorize expenditure transactions in the general ledger.

Management's Response

The fiscal agent agrees with the recommendation. In order to ensure that sufficient documentation is retained, ESC-13 is in the process of implementing a new system for document control. Additionally, by January 1, 2015, the fiscal agent will complete a review of all business office procedures and processes along with the document control system in order to ensure that expenditure transactions and journal entries are reviewed, approved and categorized in compliance with policies and procedures and Texas Education Agency Guidance.

Chapter 2-C

The Collaborative Tracked and Accounted for Revenues in Compliance with Its Policies and Procedures

The Collaborative reported that it received \$17.6 million in revenue, including \$11.4 million in membership fees from education service centers, from fiscal year 2007 through fiscal year 2013. Table 2 on the next page shows the membership fees charged for CSCOPE.

Table 2

| Fees Charged for CSCOPE Membership Fiscal Years 2007 through 2013 | | |
|--|--|--|
| Fiscal Year | Total School Districts, Charter Schools, Private Schools | Education Service Center Membership Fees |
| 2007 | 182 | \$ 300,000 |
| 2008 | 297 | 1,700,000 |
| 2009 | 464 | 1,527,500 |
| 2010 | 697 | 1,864,000 |
| 2011 | 770 | 999,182 |
| 2012 | 803 | 1,208,069 |
| 2013 | 875 | 3,765,323 |
| Total Membership Fees Charged | | \$11,364,074 |

Source: TCMPC.

Twenty-nine (97 percent) of the 30 revenue transactions tested were adequately supported. The one error was a \$300,000 rebate the Collaborative received from National Education Resources, Inc. from the sale of CSCOPE subscriptions. Auditors recalculated the amount of rebate that National Education Resources, Inc. should have paid the Collaborative and determined that Region 13–Austin and the Collaborative received an overpayment of \$30,462.

Auditors also identified three journal entry transactions that lacked approvals. According to the Texas Education Agency's *Financial Accountability System Resource Guide*, journal entries should be reviewed and approved, with a segregation of duties.

It should be noted that all 30 revenue transactions that auditors tested were categorized appropriately, identifiable as CSCOPE revenues, and corresponded to the amounts in the other education service centers' general ledgers, where applicable.

Part of the \$17.6 million discussed above included vendor revenue to the Collaborative. For example, the Collaborative received \$1.4 million from National Education Resources, Inc. from fiscal year 2009 through fiscal year 2012. That vendor revenue was the result of a clause in the contract between the Collaborative and National Education Resources, Inc. Specifically, the clause stated that National Education Resources, Inc. shall pay the Collaborative an amount equal to 12 percent of the annual subscription fees that National Education Resources, Inc. receives from the education service centers in connection with CSCOPE.

The Collaborative Had Not Valued CSCOPE Assets

The Collaborative did not assign a monetary value to the assets related to the formation and development of CSCOPE, according to the TCMPC fiscal agent. When those assets were transferred after the dissolution of the Collaborative, the TCMPC also did not assign a monetary value to them. Those assets consist of the intellectual property and technology related to CSCOPE and the Web site designed for the curriculum application.

As of March 2014, TCMPC management estimated that the costs for the development and marketing of CSCOPE from fiscal years 2008 through 2013, including all technology-related costs, totaled at least \$26.5 million. However, that amount does not include the implementation support that member education service centers provided to school districts, charter schools, and private schools such as staff time.

Recommendations to the Fiscal Agent of the TCMPC

The fiscal agent of the TCMPC should:

- Retain sufficient documentation to support the appropriateness of revenues received.
- Develop a documented process to review and approve accounting journal entries with the appropriate segregation of duties.
- Assign a value to the intellectual property and technology related to CSCOPE (now known as the TEKS Resource System) and record those assets according to generally accepted accounting principles.

Management's Response

The fiscal agent agrees with the recommendation. In order to ensure that sufficient documentation is retained, ESC-13 is in the process of implementing a new system for document control. Additionally, by January 1, 2015, the fiscal agent will complete a review of all business office procedures and processes along with the document control system in order to ensure journal entries are reviewed and approved with appropriate segregation of duties. The intellectual property and technology related to the TEKS Resource System will be assigned a value by January 1, 2015, and the asset values will be recorded in the general ledger.

The Education Service Centers Are Unable to Identify All Revenues and Expenditures for CSCOPE and CSCOPE-related Services

The 20 education service centers reported to auditors that from September 2005 through August 2013 they:

- Received a total of \$73.9 million in revenues from school districts, charter schools, and private schools for CSCOPE-related services.
- Incurred \$67.8 million in CSCOPE-related expenditures.

Auditors were not able to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE. Some of the education service centers did not separately record and track CSCOPE-related revenue and expenditure transactions.³ There is no specific requirement or mandate that the education service centers account for CSCOPE revenues and expenditures separately from their other financial transactions in their accounting systems. As a result, auditors were not able to fully answer the audit objective to determine the amount of revenue and expenditures related to the development, installation, distribution, and marketing of CSCOPE.

Five of the nine education service center regions audited reported net income from CSCOPE. Three of the nine education service center regions audited reported net losses from CSCOPE. One education service center could not determine its total CSCOPE-related revenue and expenditures and was not able to determine whether it had net income or a net loss. In addition, the education service centers were unable to identify the type and amount of any in-kind contributions that they may have provided toward the development and implementation of CSCOPE. As a result, auditors were not able to fully answer the audit objective to determine the amount of revenue and expenditures related to the development, installation, distribution, and marketing of CSCOPE.

Auditors also identified weaknesses in the processes and related controls for financial transactions at seven of the nine education service center regions audited. Those weaknesses included (1) a lack of supporting documentation for proper approval of transactions and the calculation of the fees charged to school districts, charter schools, and private schools for CSCOPE, and (2) inappropriate categorization of transactions.

³ Although CSCOPE-related revenue and expenditures were not always tracked separately, auditors used professional judgment to select items for testing that, based on information each education service center provided, had a higher likelihood of being CSCOPE-related transactions.

The Total Amount Education Service Centers Paid for CSCOPE Cannot Be Determined

Auditors were not able to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE. Some of the education service centers that marketed the CSCOPE curriculum did not record and track CSCOPE-related revenue and expenditure transactions separately from other financial transactions in their accounting systems. As discussed above, it should be noted that there is no specific requirement that the education service centers account for CSCOPE revenues and expenditures separately from other transactions in their accounting systems.

Of the nine education service centers audited:

- Region 13–Austin recorded CSCOPE revenue and expenditure transactions in its accounting system within a broad category called Teaching and Learning/CSCOPE that contained revenues and expenditures from CSCOPE and other programs.
- Region 1–Edinburg did not use a separate category in its accounting system to account for CSCOPE revenues and expenditures.
- Region 8–Mount Pleasant identified funds coming from school districts, charter schools, and private schools for CSCOPE; however, it did not limit expenditures from those funds to only CSCOPE-related expenditures.
- Region 20–San Antonio did not track CSCOPE expenditures separately from fiscal year 2007 through fiscal year 2011. It began accounting for CSCOPE revenues and expenditures separately beginning in fiscal year 2012.
- Region 6–Huntsville, Region 7–Kilgore, Region 10–Richardson, Region 14–Abilene, and Region 15–San Angelo tracked CSCOPE revenues and expenditures separately since they began offering CSCOPE to school districts, charter schools, private schools.

Five of the nine regions audited reported net income from the CSCOPE program. Table 3 on the next page lists the CSCOPE revenues and expenditures reported by the nine education service centers audited.

Table 3

| CSCOPE Revenues and Expenditures for the Years the Education Service Centers Offered CSCOPE Reported by the Nine Education Service Centers Audited | | | |
|---|--------------------------------|------------------------------------|-------------------------------------|
| Education Service Center | Total Reported CSCOPE Revenues | Total Reported CSCOPE Expenditures | Net Income/(Loss) Related to CSCOPE |
| Region 1-Edinburg | \$12,031,258 | \$11,779,960 | \$251,298 |
| Region 6-Huntsville | 8,106,611 | 7,006,099 | 1,100,512 |
| Region 7-Kilgore | 3,158,195 | 2,432,007 | 726,188 |
| Region 8-Mount Pleasant | 3,625,065 | 2,602,118 | 1,022,947 |
| Region 10-Richardson | 5,263,137 | 5,416,827 | (153,690) |
| Region 14-Abilene | 1,532,816 | 1,444,840 | 87,976 |
| Region 15-San Angelo | 1,195,654 | 1,541,039 | (345,385) |
| Region 20-San Antonio | 4,822,531 | 5,091,752 | (269,221) |
| Subtotals | \$39,735,267 | \$37,314,642 | \$2,420,625 |
| Region 13-Austin ^a | \$10,274,627 | \$8,651,670 | \$1,622,957 |
| Totals | \$50,009,894 | \$45,966,312 | \$4,043,582 |
| ^a Region 13-Austin did not track CSCOPE revenues and expenditures separately from other services provided to school districts, charter schools, and private schools. This table presents the reported revenues and expenditures for its "Teaching and Learning/CSCOPE" budget, which includes CSCOPE and three other programs. | | | |

Source: Financial information provided by the nine education service centers audited.

In-kind Contributions

In-kind contributions consist of contributions of goods and services including but not limited to contributions of personnel and staff resources, property, equipment, supplies, and other non-monetary donations.

Source: Internal Revenue Service.

In addition, the education service centers also were unable to identify the type and amount of any in-kind contributions that they may have provided toward the development and implementation of CSCOPE (see text box). As a result, auditors were not able to fully answer the audit objective to determine the amount of revenue and expenditures related to the development, installation, distribution, and marketing of CSCOPE.

School districts, charter schools, and private schools that used CSCOPE any time from the 2006-2007 school year through the 2012-2013 school year reported they paid a total of \$66.2 million to education service centers for CSCOPE-related services.⁴ However, the 20 education service centers reported to auditors that they received a total of \$73.9 million from school

⁴ In response to a request from auditors, the Collaborative obtained that reported total from the education service centers.

districts, charter schools, and private schools for CSCOPE-related services. Auditors could not specifically identify the cause of the different reported amounts; however, it could be a result of the different classifications of revenue sources among the education service centers and school districts, charter schools, and private schools.

Chapter 3-B

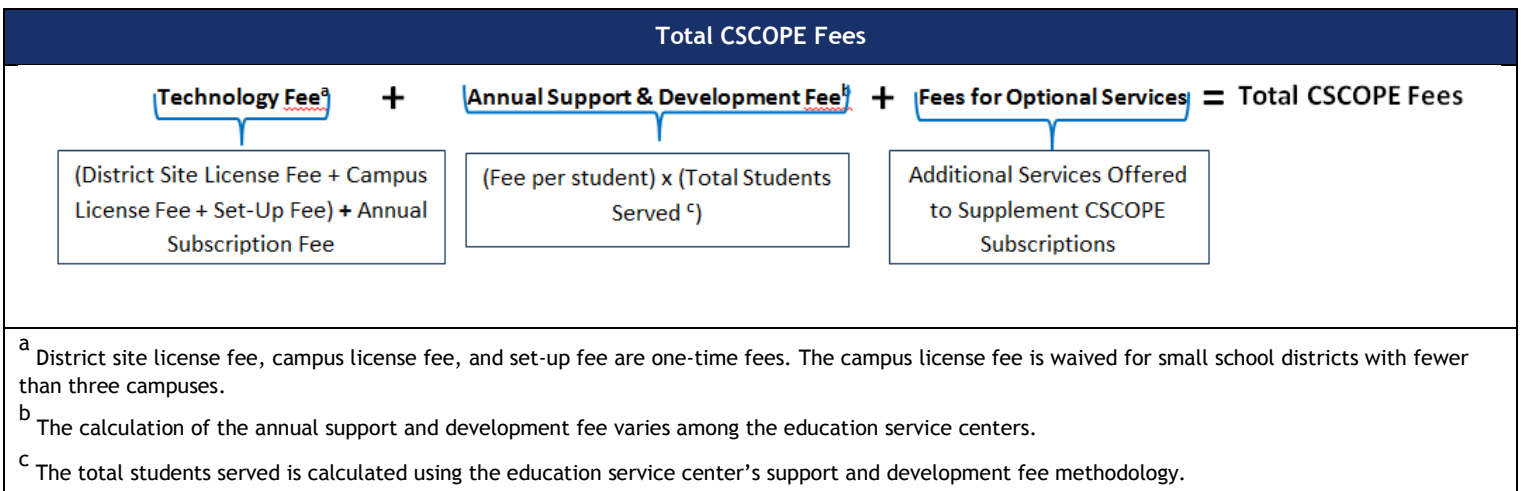
Fees Charged for the CSCOPE Curriculum and CSCOPE-related Services Varied Widely Among the Nine Education Service Centers Audited

The fees that education service centers charged school districts, charter schools, and private schools to access the CSCOPE curriculum management system varied widely among the nine education service centers audited. The CSCOPE fee a school district, charter school, or private school paid to the education service center consists of three components:

- **Technology Fee:** That fee included a one-time set-up fee and an annual subscription fee. The Collaborative provided education service centers the methodology they should have followed to calculate that fee according to the terms of the CSCOPE contract.
- **Annual Support and Development Fee:** Individual education service centers calculated that fee with minimal guidance from the Collaborative.
- **Fee for Optional Services:** Individual education service centers set the fees for any optional CSCOPE-related services they offered to school districts, charter schools, and private schools.

Figure 1 shows the three components of the total CSCOPE fees charged to school districts, charter schools, and private schools.

Figure 1



Source: Auditors created this figure based on information the Collaborative and the nine education service centers audited provided.

As discussed above, the Collaborative provided the education service centers with guidance on the calculation methodology they should use to determine the technology fee. That methodology was detailed in the Collaborative's contract with the CSCOPE vendor. However, auditors identified several instances in which an education service center either did not follow that methodology or did not accurately apply that methodology. This resulted in significant variances in the technology fees charged to school districts, charter schools, or private schools.

The annual support and development fee is based on the subscribing school district's average daily attendance (ADA). Education service centers determine the annual support and development fee by multiplying the ADA by a per-student fee. Region 13-Austin, as the Collaborative's fiscal agent, had included a \$7 per student fee ($\$7 \times \text{ADA}$) on its fee worksheet that was provided to the education service centers; however, auditors determined that education service centers used amounts other than \$7.00 per student, which significantly affected the amount that some school districts paid for CSCOPE. For example:

- Region 1-Edinburg, for the school years prior to 2008-2009, charged a per-student fee ranging from \$9.00 per student for school districts with enrollment of 30,000 or more students to \$16.00 per student for school districts with enrollments of fewer than 1,000 students.
- Region 15-San Angelo charged a per-student fee of \$8.50 multiplied by the ADA of a school district. It should be noted that Region 15-San Angelo's board of directors voted to pay the one-time set-up fee and the annual subscription fee for the school districts that participated in CSCOPE in 2010-2011 school year. In school year 2011-2012, Region 15-San Angelo's board of directors agreed to pay the one-time setup fee for new CSCOPE users and pay 50 percent of the annual subscription fee for each school district that participated in CSCOPE.
- Region 8-Mount Pleasant used three different methodologies to calculate the annual support and development fee, which included calculating the fee based on ADA, using a flat fee, or calculating the fee based on both ADA and a flat fee.

Some school districts paid CSCOPE fees for pre-kindergarten or early childhood students who should have been excluded from the fee calculations. The CSCOPE curriculum was designed only for kindergarten through 12th grade and did not provide a special curriculum for the pre-kindergarten or early childhood student population. However, three of the nine education service centers audited—Region 7-Kilgore, Region 8-Mount Pleasant, and Region 15-San Angelo—did not exclude pre-kindergarten/early childhood students from the ADA on which they based the CSCOPE fees they charged. That resulted in some school districts paying for access to the CSCOPE curriculum for pre-kindergarten and early childhood students, even though CSCOPE did not have a curriculum for those students.

For example, according to the data on the Texas Education Agency's Web site, Marshall Independent School District in Region 7–Kilgore had 296 early childhood education and pre-kindergarten students enrolled in the 2008-2009 school year. At \$7.00 per student, the Marshall Independent School District overpaid \$2,072 for CSCOPE curriculum services that were not designed for those 296 students. The Marshall Independent School District also would have been similarly charged in all other years it subscribed to CSCOPE because Region 7-Kilgore did not exclude pre-kindergarten and early childhood students.

In addition, auditors noted that (1) Region 20-San Antonio did not exclude pre-kindergarten and early childhood students from the fee calculation until the 2011-2012 school year and (2) Region 14-Abilene did not exclude pre-kindergarten and early childhood students until the 2012-2013 school year.

Eight of the nine education service centers audited offered additional CSCOPE-related support services that school districts, charter schools, and private schools could purchase. Only Region 14-Abilene did not charge additional fees for their support services. The other eight education service centers provided a variety of additional services with fees that ranged from \$45 for one person to receive content training to more than \$650 per day per presenter for additional instruction (see Appendix 4 for a list of these additional services and related fees).

Those inconsistencies existed because the education service centers set their own rates for CSCOPE-related services. Region 13-Austin, as the Collaborative's fiscal agent, did not provide guidance or criteria for how an education service center should charge school districts, charter schools, and private schools for CSCOPE services.

Recommendation to the Fiscal Agent of the TCMPC

The fiscal agent for TCMPC should provide additional guidance to the member education service centers on how to calculate equitable and reasonable fees for school districts, charter schools, and private schools to access the TEKS Resource System (formerly CSCOPE).

Management's Response

Management agrees with the recommendation. Beginning with the 2014-2015 fiscal year all ESCs will calculate TEKS Resource System subscription fees using the Average Daily Attendance (ADA) numbers submitted through the Summer 2014 PEIMS. By September 2015 the fiscal agent will recommend for approval to the TCMPC a model for calculating all fees for school districts, charter schools and privates that access the TEKS Resource System.

Chapter 3-C

Weaknesses in Processes and Related Controls for Financial Transactions at the Education Service Centers Limited the Ability to Verify the Accuracy of CSCOPE Transactions

The guidance provided to the education service centers—the Texas Education Agency's *Financial Accountability System Resource Guide* (Guide)—was designed for school districts. Education service centers are not required to comply with that guide, and that guide is not specific enough to address the programs and services provided by education service centers.

While each of the education service centers audited stated it used that guide to account for its financial transactions, the methods for accounting for CSCOPE revenues and expenditures differed significantly among the nine education service centers audited. As a result, the education service centers were unable to identify, and auditors were not able to verify, the total amount spent on CSCOPE or the revenue received from the sale of CSCOPE.

Auditors attempted to mitigate this by requesting that all 20 education service centers provide populations of CSCOPE revenue and expenditure transactions from the inception of CSCOPE through August 31, 2013. At the nine education service centers audited, auditors used professional judgment to select samples of revenue and expenditure transactions for testing that were initially identified as CSCOPE transactions. However, at five of the nine regions tested, auditors concluded that some of the transactions selected were not related to CSCOPE. As a result, auditors were not able to determine a complete population of CSCOPE revenues and expenditures or verify the accuracy of reported CSCOPE transactions. For example:

- At Region 1-Edinburg, auditors tested 45 revenue transactions totaling \$6,671,625 and 30 expenditure transactions totaling \$2,166,929. While all 45 revenue transactions tested were identifiable as CSCOPE-related, 12 (40 percent) of the expenditure transactions were not identifiable as CSCOPE-related.
- At Region 8-Mount Pleasant, auditors tested 30 revenue transactions totaling \$1,354,970 and 30 expenditure transactions totaling \$1,758,964. All 60 transactions tested were identifiable CSCOPE-related.
- At Region 13-Austin, auditors tested 30 local revenue transactions (see text box) totaling \$2,226,516. Auditors also tested 30 local expenditure transactions totaling \$1,458,442. While all 30 revenue transactions were identifiable as CSCOPE-related, 3 (10 percent) of the 30 expenditure transactions, totaling \$165,976, could not be identified as CSCOPE-related.
- At Region 14-Abilene, auditors tested 30 revenue transactions totaling \$913,209 and 30 expenditure transactions totaling \$948,383. All 60 transactions tests were identifiable as CSCOPE-related.
- At Region 20-San Antonio, auditors tested 30 revenue transactions totaling \$1,846,143, and 30 expenditure transactions totaling \$1,486,385. One (3 percent) revenue transaction totaling \$6,625 could not be identified as CSCOPE-related, and 10 (33 percent) expenditure transactions totaling \$128,949 could not be identified as CSCOPE-related.

Region 13-Austin Local Transactions

Region 13-Austin was designated as the fiscal agent for the Collaborative when the Collaborative was formed in 2007. Region 13-Austin also provided the CSCOPE curriculum to school districts within Region 13. Region 13-Austin's revenue and expenditures from the sale of CSCOPE services to school districts, charter schools, and private schools within Region 13 are considered to be "local CSCOPE transactions." However, Region 13-Austin did not separately track the funds received from school districts, charter schools, and private schools within Region 13 for local CSCOPE services.

Source: Region 13-Austin.

Auditors identified weaknesses in the processes and controls for accounting for revenues at the education service centers audited. Specifically, for the nine education services audited:

- Two education service centers did not properly record at least one revenue transaction tested.
- Seven education service centers could not provide auditors sufficient documentation to support at least one revenue transaction tested.
- Three education service centers recorded at least one revenue transaction as a CSCOPE transaction that auditors determined was not identifiable as CSCOPE-related.

In addition, auditors identified weaknesses in the processes and controls for accounting for expenditures at the education service centers audited. Specifically, of the nine education service centers audited:

- Three education service centers did not properly record at least one expenditure transaction tested.
- Seven education service centers could not provide auditors sufficient documentation to support the amount of at least one expenditure transaction tested.
- Three education service centers recorded at least one expenditure transaction as a CSCOPE expenditure that auditors determined was not CSCOPE-related.
- Four education service centers could not provide auditors evidence of approval for at least one expenditure transaction tested.
- At least one education service center did not comply with generally accepted accounting principles by classifying 12 CSCOPE-related transactions totaling \$856,759 as deferred revenue. However, those revenues had been earned in a prior accounting period.

The weaknesses in the processes and controls over revenue and expenditure transactions contributed to the 20 education service centers' inability to identify the total amounts received for CSCOPE or the amounts expended for CSCOPE. Without clear and relevant guidance on how funds should be tracked and recorded, it is not possible to know the cost of the investment in a curriculum management system such as CSCOPE or to determine whether the investment is a good value for the taxpayers.

Recommendations to the Legislature

To address the issues identified in this report, the Legislature should consider:

- Requiring education service centers through the Texas Education Agency to obtain approval from the Governor and the Legislative Budget Board, with input from the State Board of Education, before they initiate or design/construct a major or statewide curriculum management system.
- Requiring education service centers through the Texas Education Agency to obtain approval from the Governor and the Legislative Budget Board, with input from the State Board of Education, before initiating a major education initiative with significant cost, including curriculum, information systems, and data processing systems that use public school funds.
- Requiring education service centers to comply with the *State of Texas Contract Management Guide*.
- Require the Texas Education Agency to evaluate and develop a list of curriculum management systems that conform to the State's required learning standards.
- Requiring each education service center to use an uniform accounting system, adopted by the Texas Education Agency, designed to account for the varied services and activities they provide to their clients and to report the financial resources received or expended related to those services to the Texas Education Agency for an annual evaluation.
- Requiring education service centers to adhere to provisions for the security of information technology resources specified in Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).
- Requiring education service centers to retain all contractual documentation for a period of eight years after the expiration of the contract.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the development and implementation of the CSCOPE curriculum management system was conducted in compliance with applicable procurement and contracting laws.
- Determine (1) the amounts of revenues or fees assessed or collected, expenditures, and support or in-kind contributions that education service centers or independent school districts made or authorized for the development, installation, distribution, and marketing of CSCOPE and (2) whether those amounts were administered in compliance with applicable laws and rules.
- Determine (1) the amounts of expenditures, revenues, or in-kind contributions that education service centers made to the Texas Education Service Center Curriculum Collaborative (Collaborative) and (2) whether those amounts were administered in compliance with laws and rules.

Scope

The scope of this audit covered activities related to the procurement of CSCOPE, as well as CSCOPE revenues and expenditures, at the 20 education service centers in Texas and the Collaborative from the initial procurement and development of CSCOPE in 2005 through August 31, 2013.

Auditors were unable to verify the total amount that education service centers reported they paid for the development, installation, distribution, and marketing of CSCOPE. Some education service centers did not separately record and track CSCOPE-related revenue and expenditure transactions. In addition, the education service centers were unable to identify the type and amount of any in-kind contributions that they may have provided toward the development and implementation of CSCOPE. As a result, auditors were not able to fully answer the audit objective to determine the amount of revenue and expenditures related to the development, installation, distribution and marketing of CSCOPE.

Methodology

The audit methodology included gaining an understanding of the CSCOPE system and education service centers' internal controls over CSCOPE transactions; identifying relevant criteria; assessing the risks of fraud and noncompliance; and collecting and reviewing financial information related to CSCOPE revenues and expenditures from all 20 education service centers and the Collaborative. Additionally, the audit methodology included collecting and reviewing documentation related to the procurement of CSCOPE, testing CSCOPE revenue and expenditure transactions, analyzing and evaluating results of those tests, identifying in-kind transactions, and conducting interviews with the management and staff of nine education service centers that auditors selected for on-site testing through a risk assessment process.

The risk assessment for the selection of education service centers to audit considered the amount of CSCOPE revenues and expenditures that education service centers reported as being received and expended through August 31, 2013, and the length of time during which the education service centers provided CSCOPE services to school districts, private schools, and charter schools. The nine education service centers selected and audited were:

- Region 1-Edinburg.
- Region 6-Huntsville.
- Region 7-Kilgore.
- Region 8-Mount Pleasant.
- Region 10-Richardson.
- Region 13-Austin.
- Region 14-Abilene.
- Region 15-San Angelo.
- Region 20-San Antonio.

Auditors requested that all 20 education service centers provide populations of CSCOPE revenue and expenditure transactions from the inception of CSCOPE through August 31, 2013.

Auditors assessed the reliability of the data used in the audit by performing a limited review of controls for two financial systems—the Texas Enterprise Information System (TxEIS) and the Internet-based Texas Computer Cooperative Software (ITCCS)—which were the two main accounting systems the education service centers used. Because the education service centers audited did not have a uniform methodology to account for CSCOPE

revenues and expenditures, auditors were not able to identify a complete population of CSCOPE revenues and expenditures. In addition, auditors performed a limited review of selected general controls governing the operations of the two financial systems.

Auditors used professional judgment to select samples of CSCOPE revenue transactions and CSCOPE expenditure transactions for testing at each of the nine education service centers selected for this audit and at the Collaborative. In all cases, the samples items generally were not representative of the population and, therefore, the results may not be extrapolated to the population.

Information collected and reviewed included the following:

- Documentation related to the procurement of CSCOPE, including contracts.
- Documentation related to the formation of the Collaborative.
- *A Technology Review of: CSCOPE* issued in August 2010 by Gibson Consulting Group.
- Collaborative bylaws, business plans, and board meeting minutes from the Collaborative's inception through August 31, 2013.
- Collaborative budgets from the Collaborative's inception through August 31, 2013.
- Financial and accounting policies and procedures for all 20 education service centers.
- Resolutions and interlocal agreements related to CSCOPE between the education service centers and the Collaborative.
- Financial activity (revenues and expenditures) related to CSCOPE for all 20 education service centers and the Collaborative from the fiscal year of each center's membership in the Collaborative through August 31, 2013.
- Audited financial statements for the fiscal year ending August 31, 2012, for all 20 education service centers.
- Records retention schedules for the education service centers.
- Fees reported paid by school districts, private schools, and charter schools for CSCOPE services.

Procedures and tests conducted included the following:

For CSCOPE development and implementation, auditors:

- Reviewed all available procurement documentation and evaluation criteria to determine whether the procurement complied with applicable procurement laws.
- Reviewed contracts between Region 8–Mount Pleasant and the CSCOPE vendor for fiscal years 2006 through 2010, and between Region 13-Austin/Collaborative and the CSCOPE vendor for fiscal years 2010 through 2013.
- Reviewed available contracts with CSCOPE vendor National Education Resources, Inc. and 3rdL Corporation to determine whether the contracts contained essential contract elements.
- Determined the total amount of CSCOPE-related payments made to National Education Resources, Inc. and 3rdL Corporation.
- Reviewed CSCOPE transactions for Region 8 – Mount Pleasant and Region 13 – Austin to determine whether those education service centers or the Collaborative received any revenues or rebates from National Education Resources, Inc. or 3rdL Corporation.

For the nine education service centers audited, auditors:

- Reviewed the answers to a financial process questionnaire that auditors developed and the education service centers’ organizational charts.
- Reviewed the answers to an information technology questionnaire that auditors developed from four education service centers that use TxEIS or ITCCS.
- Reviewed each education service center’s processes for recording and reporting CSCOPE revenues and expenditures.
- Tested samples of CSCOPE revenues transactions and CSCOPE expenditures transactions from the inception of CSCOPE services at each education service center through August 31, 2013.
- Determined whether each education service center made or received in-kind contributions related to CSCOPE.
- Performed a limited review of selected general controls governing the operations of TxEIS and ITCCS at six of the nine education service centers audited.

For the Collaborative:

- Reviewed the Collaborative's processes for recording and reporting CSCOPE revenues and expenditures.
- Tested samples of CSCOPE revenues transactions and CSCOPE expenditures transactions from fiscal year 2007 through fiscal year 2013.

Criteria used included the following:

- Texas Education Code, Chapter 8 (Establishment of the Regional Education Service Centers) and Chapter 44 (Fiscal Management).
- Title 13, Texas Administrative Code, Chapter 7 (Local Retention Schedule: Records Common to All Local Governments).
- The Texas Education Agency's *Financial Accountability System Resource Guide*.
- Title 19, Texas Administrative Code, Chapter 109 (Texas Education Agency: Budgeting, Accounting and Auditing).
- Texas Government Code, Chapter 551 (Open Meetings), Chapter 791 (Interlocal Cooperation Contracts), and Chapter 2254 (Professional and Consulting Services).
- Texas Business Organizations Code, Chapter 22 (Nonprofit Corporations).
- The Collaborative's articles of incorporation.
- Education service centers' policies and procedures.
- Generally accepted accounting principles (GAAP).
- *CSCOPE Curriculum Developer Cost Structure* provided by the Collaborative.

Because of the lack of specific criteria for contracting and information technology at the education service centers, auditors referred to the following guides and rules that generally apply to state agencies for comparison purposes:

- *State of Texas Contract Management Guide*, Versions 1.1 through 1.9.
- Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards).

Project Information

Audit fieldwork was conducted from December 2013 through March 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Kathy L. Aven, CFE, CIA (Project Manager)
- Michael A. Simon, MBA, CGAP (Assistant Project Manager)
- Shahpar M. Ali, CPA, M/SBT
- Adriana Garcia-Artiles
- Mike Goodwin
- Arnton Gray
- Joe Kozak
- Darcy Melton, MAcy
- Bianca F. Pineda
- Fabienne Robin, MBA
- Ellie Thedford, CGAP
- Jessica Volkmann
- Tammie Wells, MBA
- Michael Yokie, CISA
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Cesar Saldivar, CGAP (Audit Manager)

CSCOPE Contracts for 2006 through 2016

Table 4 lists the CSCOPE technology contracts from 2006 through 2016. As discussed in Chapter 1-B, the 2005 CSCOPE contract was destroyed based on the Mount Pleasant Education Service Center's (Region 8-Mount Pleasant) records retention schedule.

Table 4

| CSCOPE Contracts from 2006 through 2013 | | | | |
|---|---|-------------------------|----------------------|-------------------------|
| Vendor | Education Service Center/Collaborative | Contract Effective Date | Contract Time Period | Total Pages in Contract |
| National Education Resources, Inc. | Region 8-Mount Pleasant | July 1, 2006 | 2006 - 2007 | 1 |
| National Education Resources, Inc. | Region 8-Mount Pleasant | July 1, 2007 | 2007 - 2008 | 1 |
| National Education Resources, Inc. | Region 8-Mount Pleasant | July 1, 2008 | 2008 - 2009 | 1 |
| National Education Resources, Inc. | Region 8-Mount Pleasant | July 1, 2009 | 2009 - 2010 | 1 |
| National Education Resources, Inc. | Region 8-Mount Pleasant | July 1, 2010 | 2010 - 2011 | 1 |
| National Education Resources, Inc. | Texas Education Service Center Curriculum Collaborative | July 1, 2010 | 2010 - 2012 | 45 |
| 3rdL Corporation | Texas Education Service Center Curriculum Collaborative | January 17, 2012 | 2012 - 2016 | 37 |

Source: Contract documentation provided by Region 8-Mount Pleasant and the Texas Education Service Center Curriculum Collaborative.

Figure 2 on the next page shows the CSCOPE contract for 2006-2007, which is similar to the one-page contracts for CSCOPE for other years prior to 2011.

Figure 2

CSCOPE Contract for July 1, 2006, through July 1, 2007

AGREEMENT OF CONTRACTED SERVICES

This agreement made and entered into by the Region VIII Education Service Center and by:

National Education Resources
Jim Jennings
6 Darnley Greene
Delmar, New York 12054


shall be effective on July 1, 2006 and continue until July 1, 2007. The parties named above hereby agree as follows:

National Education Resources agrees to:

- Provide set up and site license(s) for the Curriculum Developer (CD) for Region 8 school districts.
- Provide Private URL and DNS services for each district utilizing the CD. Host the CD and related curriculum elements for all districts using the service.
- Maintain Current database of the Texas Essential Knowledge & Skills (TEKS) per the guidelines of the Texas Education Agency.
- Provide Direct Consultative support to the Region 8 ESC and act as secondary consultative support, via the Region 8 ESC when needed, for all districts utilizing the CD.
- Provide all technological support of the CD's operation to both the Region 8 ESC and the district's utilizing the CD.
- Pay the Region 8 ESC a 12% share of all annual subscription fees.
- Coordinate with the Region 8 ESC in good faith to resolve any and all issues arising from the implementation of this program within the region.

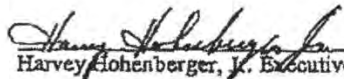
Region VIII ESC agrees to:

- Pay NER the current set-up, licenses and subscription costs per agreed upon fees.
- Act as primary consultative support to its districts implementing the CD.
- Coordinate with NER in good faith to resolve any and all issues arising from the implementation of this program within their region.

ESC Consultant:  Cynthia Bayuk, Director of Curriculum and Instructional Technology

Total costs to be paid to NER (see related Purchase orders):

In testimony whereof, these parties agree.


Harvey Hohenberger, Jr. Executive Director


Consultant

Region VIII, Education Service Center

Date

7-5-06

Date

7-6-06

Time Line of Events

The CSCOPE curriculum management system was first offered by four education service centers during the 2005-2006 school year. By November 2012, all 20 education service centers offered CSCOPE. Table 5 lists the significant events in the development and implementation of CSCOPE.

Table 5

| Time Line of Significant CSCOPE Events | |
|--|--|
| Date | Event |
| 2005-2006 School Year | <ul style="list-style-type: none"> Region 8-Mount Pleasant and National Education Resources, Inc. entered into an agreement for a "curriculum management system." Auditors were not provided a contract for this period because Region 8-Mount Pleasant management asserted that the contract was destroyed in accordance with its local records retention schedule. CSCOPE was developed and offered by the Region 2-Corpus Christi, Region 6-Huntsville, Region 8-Mount Pleasant, and Region 19-El Paso education service centers. |
| July 6, 2006 | <ul style="list-style-type: none"> Region 8-Mount Pleasant and National Education Resources, Inc. signed a one-year contract for CSCOPE for the July 1, 2006, through July 1, 2007 time period. |
| 2006-2007 School Year | <ul style="list-style-type: none"> CSCOPE was first implemented in Texas school districts, charter schools, and private schools. |
| June 2007 | <ul style="list-style-type: none"> Ten education service centers (Region 1-Edinburg, Region 2-Corpus Christi, Region 6-Huntsville, Region 7-Kilgore, Region 8-Mount Pleasant, Region 10-Richardson, Region 13-Austin, Region 16-Amarillo, Region 19-El Paso, and Region 20-San Antonio) entered into an interlocal agreement formally creating the Texas Education Service Center Curriculum Collaborative (Collaborative). |
| February 9, 2009 | <ul style="list-style-type: none"> The Collaborative voted unanimously to file to become a 501(c)(3) nonprofit organization, pending input from an attorney, and named a committee to work on the filing process. |
| April 13, 2009 | <ul style="list-style-type: none"> The Collaborative voted to work with law firm Powell & Leon, LLP to file the necessary paperwork to obtain 501(c)(3) status. |
| July 1, 2009 | <ul style="list-style-type: none"> The executive director of Region 1-Edinburg signed the articles of incorporation for the Collaborative. |
| July 14, 2009 | <ul style="list-style-type: none"> The original certificate of formation and articles of incorporation for the Collaborative were filed with the Texas Secretary of State. |
| September 14, 2009 | <ul style="list-style-type: none"> The executive director of Region 8-Mount Pleasant signed the bylaws for the Collaborative. |
| 2010 | <ul style="list-style-type: none"> Region 3-Victoria, Region 5-Beaumont, Region 9-Wichita Falls, Region 11-Fort Worth, Region 12-Waco, Region 14-Abilene, Region 15-San Angelo, Region 17-Lubbock, and Region 18-Midland joined the Collaborative. |
| January 19, 2010 | <ul style="list-style-type: none"> The IRS assigned an employer identification number to the Collaborative. |
| July 1, 2010 | <ul style="list-style-type: none"> The National Education Resources, Inc. contract was renewed and signed by the chairperson of the Collaborative on March 31, 2011. The president of National Education Resources, Inc. signed the contract on March 21, 2011. |
| August 5, 2010 | <ul style="list-style-type: none"> Blake Powell, of Powell and Leon, LLP, presented the Collaborative's non-profit application to the Internal Revenue Service (IRS). |
| May 2, 2011 | <ul style="list-style-type: none"> The Collaborative filed a restated certificate of formation and amended articles of incorporation with the Texas Secretary of State. |
| May 18, 2011 | <ul style="list-style-type: none"> The IRS approved the 501(c)(3) tax-exempt status for the Collaborative. |

| Time Line of Significant CSCOPE Events | |
|--|---|
| Date | Event |
| January 17, 2012 | <ul style="list-style-type: none"> ▪ The 3rdL Corporation contract for CSCOPE started. |
| June 15, 2012 | <ul style="list-style-type: none"> ▪ The Collaborative made the final payment to National Education Resources, Inc. in the amount of \$244,192 for the CSCOPE contract. |
| October 19, 2012 | <ul style="list-style-type: none"> ▪ The Collaborative made the first payment to 3rdL Corporation in the amount of \$735,453 for the CSCOPE contract. |
| November 2012 | <ul style="list-style-type: none"> ▪ Region 4-Houston became the 20th education service center to join the Collaborative. |
| May 24, 2013 | <ul style="list-style-type: none"> ▪ The Collaborative's board of directors voted to discontinue providing lesson plans as part of CSCOPE and to dissolve the Collaborative. Ownership and management of CSCOPE was transferred to the Texas Curriculum Management Program Cooperative, which was formed by the education service centers through a shared services arrangement. |
| August 30, 2013 | <ul style="list-style-type: none"> ▪ CSCOPE was renamed the TEKS Resource System and the Collaborative removed the www.cscope.us Web site and created the www.tcmpc.org Web site. |
| August 31, 2013 | <ul style="list-style-type: none"> ▪ All lesson plans previously available on the www.cscope.us Web site were removed as the Collaborative's contractual obligations to the school districts, charter schools, and private schools served by CSCOPE were concluded. |

Source: Information from Region 13-Austin education service center.

Additional CSCOPE Support Services Offered by Nine Education Service Centers Audited

All nine education service centers audited offered a variety of additional support services as part of the CSCOPE package to school districts, charter schools, and private schools. Eight of the nine education service centers offered the support services at an additional cost to the annual commitment fees for basic CSCOPE services. Table 6 lists examples of the additional support services offered by the nine education service centers audited.

Table 6

| Additional Support Services Offered by Nine Regions Audited | | | |
|--|-------------------------------|--|--|
| Region | Applicable School Year | Additional Service Offered | Cost |
| Region 1-Edinburg | 2006-2007 ^a | FaxOnline test generator | \$0.25 per student |
| | 2008-2009 | CSCOPE Plus (Professional Learners' Update Series) | \$500 per slot ^b |
| | 2009-2010 | CSCOPE Plus | \$600 per slot |
| | 2009-2010 | Leadership Institute | \$300 per slot (three days) |
| | 2009-2010 | CSCOPE Customized On-site Training | \$1,800 for 2 days for up to 40 participants |
| | 2009-2010 | CSCOPE Teacher Institute ^c | \$6,300 per content area |
| | 2010-2011 | CSCOPE Customized On-site Training | \$800 per day for up to 40 participants |
| | 2011-2012 2012-2013 | CSCOPE Customized On-site Training | Not Specified ^d |
| Region 6-Huntsville | 2011-2012 | Providing Region 6-Huntsville Employees to Conduct Workshops in Other Regions ^e | \$500 reimbursement rate per day, \$150 daily allowance, plus \$450 travel cost per event. |
| Region 7-Kilgore ^f | 2007-2008 | Content Training | Prices ranged from \$45-\$990 |
| | 2008-2009 | Content Training | Prices ranged from \$45 - \$4,050 |
| | 2008-2009 | Systematic Pursuit Optimizing Teaching in Texas ^g | \$450 |
| | 2009-2010 | Systematic Pursuit Optimizing Teaching in Texas | Prices ranged from \$150-\$450 |
| | 2009-2010 | Curriculum, Assessment, and Response to Intervention | Prices ranged from \$50-\$100 |
| | 2009-2010 | Formative Assessments | Prices ranged from \$45-\$360 |
| | 2009-2010 | Rubrics | Prices ranged from \$100-\$200 |
| | 2010-2011 | Customized Service | \$800 |
| | 2010-2011 | Rubrics | Prices ranged from \$200-\$300 |
| | 2011-2012 | Curriculum Conference | Prices ranged from \$50-\$1,000 |
| | 2011-2012 | District Snapshot ^h | \$1,200 |
| | 2012-2013 | Curriculum Conference | Prices ranged from \$50-\$1924 |

| Additional Support Services Offered by Nine Regions Audited | | | |
|---|-----------------------------|--|--|
| Region | Applicable School Year | Additional Service Offered | Cost |
| | 2012-2013 | District Snapshot ⁱ | \$6,650 |
| | 2012-2013 | Professional Learning Community Leadership Teams | Prices ranged from \$50-\$2,050 |
| | 2012-2013 | Customized Service for Math Manipulative Training, Rubric Training, Differentiated Instruction and Turn Around Tune Up Interviews and Observations | \$1,500 |
| | 2012-2013 | Two Days of Professional Development with a Focus on Questioning, Vocabulary and Assessment/Six Hours Follow-up | \$1,350 |
| | 2012-2013 | Four-day Leadership Training and Support for Curriculum Alignment | \$2,533 |
| | 2012-2013 | Service Agreement South Ward Navigation Support | \$140 |
| | 2012-2013 | Customized Service for Data Driven Decision Making training and One Day Follow-up with Campus Administrators | \$1,500 |
| Region 8-Mount Pleasant | 2005-2006 through 2012-2013 | Curriculum Development Support (included both CSCOPE and unrelated services) | \$2 per average daily attendance plus flat rate based on size of the school district ^j |
| Region 10-Richardson | 2007-2008 2008-2009 | Support Services to Out-of-region School Districts | \$10 per average daily attendance (\$3 more per average daily attendance than in-region schools districts that paid \$7 per average daily attendance as part of the annual commitment fee for basic CSCOPE services) |
| | 2009-2010 | Support Services to Out-of-region School Districts | \$7 per average daily attendance plus a travel fee (travel fees were generally \$500, but ranged from \$275 to \$700) |
| Region 13-Austin | 2008-2009 through 2012-2013 | Additional Support Days | \$650 per day per presenter |
| | 2008-2009 through 2012-2013 | CSCOPE Semester Kick-off Sessions for Grade 6-8 Science Teachers | \$275 per person |
| | 2008-2009 through 2012-2013 | CSCOPE Semester Kick-off Sessions for All Other Teachers | \$150 per person |
| | 2009-2010 | Structured Planning-Aligning Resources and Curriculum Sessions | \$70 per person (regular rate) or \$50 per person (discounted rate) |
| | 2012-2013 | Strategic Instruction Model (SIM) Unit Organizer Workshop for up to 30 participants | \$1,950 |
| | 2012-2013 | Eduphoria! Student Data Analysis Software-Analysis Edition | \$750 per campus |
| | 2012-2013 | Eduphoria! Student Data Analysis Software-Analysis and Benchmarking Edition | \$1,250 per campus |
| | 2012-2013 | Eduphoria! Student Data Analysis Software-Premium Suite Edition | \$1,650 per campus |

| Additional Support Services Offered by Nine Regions Audited | | | |
|--|---|--|---|
| Region | Applicable School Year | Additional Service Offered | Cost |
| Region 14-Abilene | 2009-2010 through 2012-2013 | Additional Support Services including: <ul style="list-style-type: none"> ▪ CSCOPE trainings ▪ Technical assistance ▪ Material and supplies for training ▪ Hands-on manipulatives for lessons ▪ Curriculum kits ▪ On-site support/training | No additional cost to school districts beyond annual commitment fees for basic CSCOPE services (included in the support and development fee of \$7 per average daily attendance) |
| Region 15-San Angelo | 2010-2011 | <ul style="list-style-type: none"> ▪ CSCOPE Materials for Teachers to Use in the Implementation of CSCOPE ▪ Customized CSCOPE Training | <ul style="list-style-type: none"> ▪ Prices of materials vary from \$35 to \$135 based on subject and grade level ▪ \$500 per consultant for full day, \$300 per consultant for half day for customized CSCOPE training |
| Region 20-San Antonio | 2009-2010 2011-2012 2012-2013 2012-2013 2009-2013 | Additional Support Days Additional Support Days Additional Support Days CSCOPE Workshop Training | \$500 per day \$550 per day \$600 per day ^k \$200 per person \$600 for a full day and \$400 for a half day |
| <p>^a FaxOnline was intended to be a test generator, but it was never developed. As a result, Region 1-Edinburg refunded the fees in the 2007-2008 school year.</p> <p>^b Six days of training per person, one day per six weeks, in a single content area.</p> <p>^c For newly joining school districts.</p> <p>^d Commitment form states, "Please call for proposal and quote."</p> <p>^e For all regions except Region 13-Austin.</p> <p>^f In all school years, there were additional session opportunities or customized service agreements offered.</p> <p>^g For eight days of professional development, over a two-year time period.</p> <p>^h Provided to the Marshall Independent School District.</p> <p>ⁱ For 2 days on site, 6 days "turn around, tune up" training for math/reading, and 2.5 days of on-site "Professional Learning Community."</p> <p>^j All curriculum development support (for CSCOPE and unrelated programs) is bundled with the annual subscription fee for the CSCOPE curriculum at a flat rate depending upon school district size plus \$2 per average daily attendance. The flat rates were \$5,000 for K-6; \$6,000 for K-8; \$8,000 for 1A-sized schools; \$10,000 for 2A-sized schools; \$13,500 for 3A-sized schools; and \$18,000 for 4A-sized schools. In contrast to the pricing methodologies at the other education service centers, Region 8-Mount Pleasant charged an up-front, flat-rate fee for all curriculum development support services (both CSCOPE and non-CSCOPE-related) regardless of whether a school district used those services. It should be noted that 5A-sized schools were not part of the Core Curriculum Co-op Package offered by Region 8-Mount Pleasant.</p> <p>^k Region 20-San Antonio's board of directors approved a rate for additional support days of \$600 per day; however, Region 20-San Antonio provided a discount to school districts in the school years prior to 2012-2013.</p> | | | |

Source: Information provided by the education service centers.

Summary of CSCOPE Activity at Education Service Centers

Table 7 lists all 20 education service centers in Texas; the first year schools in each region used the CSCOPE curriculum; CSCOPE revenues and expenditures; net income/loss from CSCOPE activities; and the number of school districts, charter schools, and private schools in each region that had used the CSCOPE curriculum management system as of August 31, 2013.

Table 7

| Summary of CSCOPE-related Activity at Education Service Centers | | | | | |
|---|--|--|--|---|--|
| Education Service Center Region | School Year the Region First Used CSCOPE | Total Local CSCOPE Revenues from Inception through August 31, 2013 | Total Local CSCOPE Expenditures from Inception through August 31, 2013 | Difference Between Total Local CSCOPE Revenues and Total Local CSCOPE Expenditures from Inception through August 31, 2013 | Number of School Districts and Other Schools in the Region Using CSCOPE in School Year 2012-2013 |
| Region 1-Edinburg | 2006-2007 | \$12,031,258 | \$11,779,960 | \$251,298 | 35 |
| Region 2-Corpus Christi | 2006-2007 | 4,206,681 | 3,590,778 | 615,903 | 43 |
| Region 3-Victoria | 2009-2010 | 1,144,577 | 1,251,409 | (106,832) | 28 |
| Region 4-Houston | 2012-2013 | 0 | 170,530 | (170,530) | 0 |
| Region 5-Beaumont | 2009-2010 | 1,221,480 | 1,319,736 | (98,256) | 35 |
| Region 6-Huntsville | 2006-2007 | 8,106,611 | 7,006,099 | 1,100,512 | 88 |
| Region 7-Kilgore | 2007-2008 | 3,158,195 | 2,432,007 | 726,188 | 58 |
| Region 8-Mount Pleasant | 2006-2007 | 3,625,065 | 2,602,118 | 1,022,947 | 55 |
| Region 9-Wichita Falls | 2008-2009 | 1,019,798 | 1,211,084 | (191,286) | 38 |
| Region 10-Richardson | 2007-2008 | 5,263,137 | 5,416,827 | (153,690) | 67 |
| Region 11-Fort Worth | 2009-2010 | 1,995,914 | 2,149,636 | (153,722) | 36 |
| Region 12-Waco | 2008-2009 | 4,180,142 | 3,520,973 | 659,169 | 64 |
| Region 13- ^a Austin | 2006-2007 | 10,274,627 | 8,651,670 | 1,622,957 | 52 |
| Region 14-Abilene | 2008-2009 | 1,532,816 | 1,444,840 | 87,976 | 39 |
| Region 15-San Angelo | 2008-2009 | 1,195,654 | 1,541,039 | (345,385) | 35 |
| Region 16-Amarillo | 2006-2007 | 1,624,359 | 2,176,537 | (552,178) | 46 |

Summary of CSCOPE-related Activity at Education Service Centers

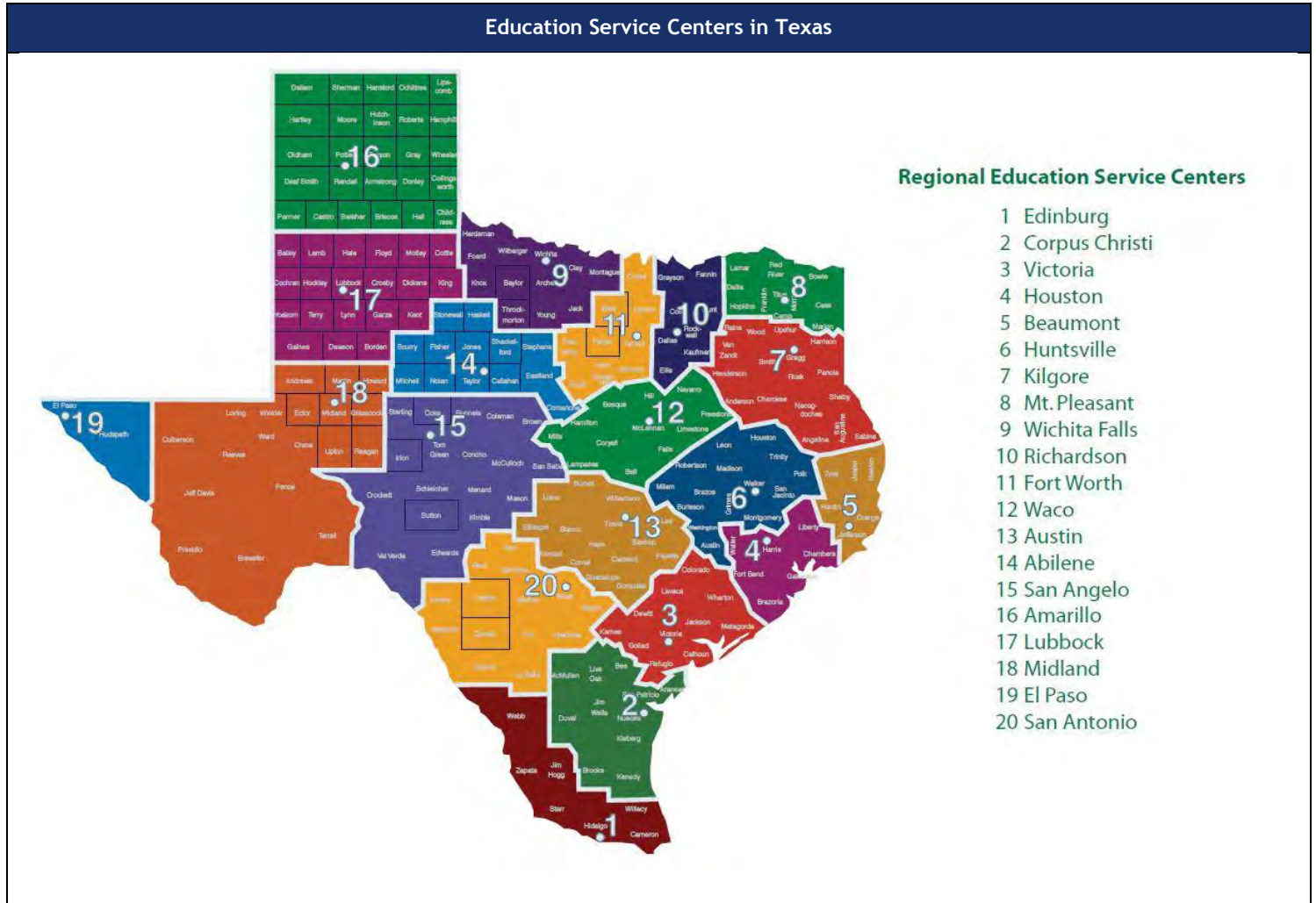
| Education Service Center Region | School Year the Region First Used CSCOPE | Total Local CSCOPE Revenues from Inception through August 31, 2013 | Total Local CSCOPE Expenditures from Inception through August 31, 2013 | Difference Between Total Local CSCOPE Revenues and Total Local CSCOPE Expenditures from Inception through August 31, 2013 | Number of School Districts and Other Schools in the Region Using CSCOPE in School Year 2012-2013 |
|--|--|--|--|---|--|
| Region 17-Lubbock | 2009-2010 | 1,874,190 | 1,637,256 | 236,934 | 52 |
| Region 18-Midland | 2009-2010 | 1,729,090 | 2,080,025 | (350,935) | 33 |
| Region 19-El Paso | 2006-2007 | 4,872,927 | 2,700,269 | 2,172,658 | 13 |
| Region 20-San Antonio | 2007-2008 | 4,822,531 | 5,091,752 | (269,221) | 58 |
| Totals | | \$73,879,052 | \$67,774,547 | \$6,104,505 | 875 |
| ^a Region 13-Austin did not track CSCOPE revenues and expenditures separately from other services provided to school districts charter schools, and private schools. This is the reported revenues and expenditures for its "Teaching and Learning/CSCOPE" budget, which includes CSCOPE and three other programs. | | | | | |

Source: Education service centers.

Map of the Education Service Centers in Texas

Figure 3 shows the service areas of the 20 education service centers, along with the location of each education service center.

Figure 3

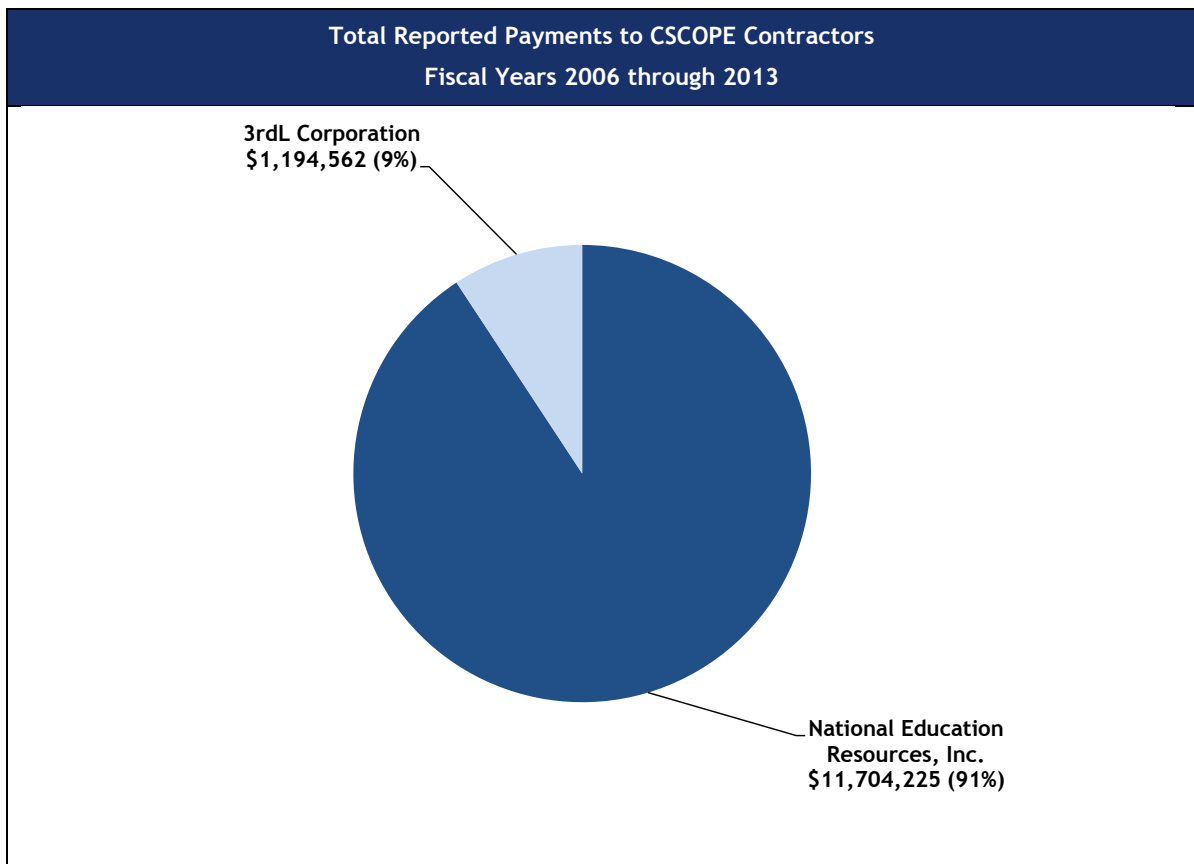


Source: Texas Education Agency.

Payments to CSCOPE Contractors

Figures 4 and 5 show the amounts that the education service centers reported they paid to the CSCOPE contractors. Figure 4 shows the total reported payments to National Education Resources, Inc. and 3rdL Corporation from fiscal year 2006 through fiscal year 2013. It should be noted that 3rdL Corporation was paid solely from Texas Education Service Center Curriculum Collaborative funding and not from other education service centers. As discussed in this audit report, auditors were not able to verify the reported amounts because some of the education service centers did not separately track CSCOPE-related expenditures.

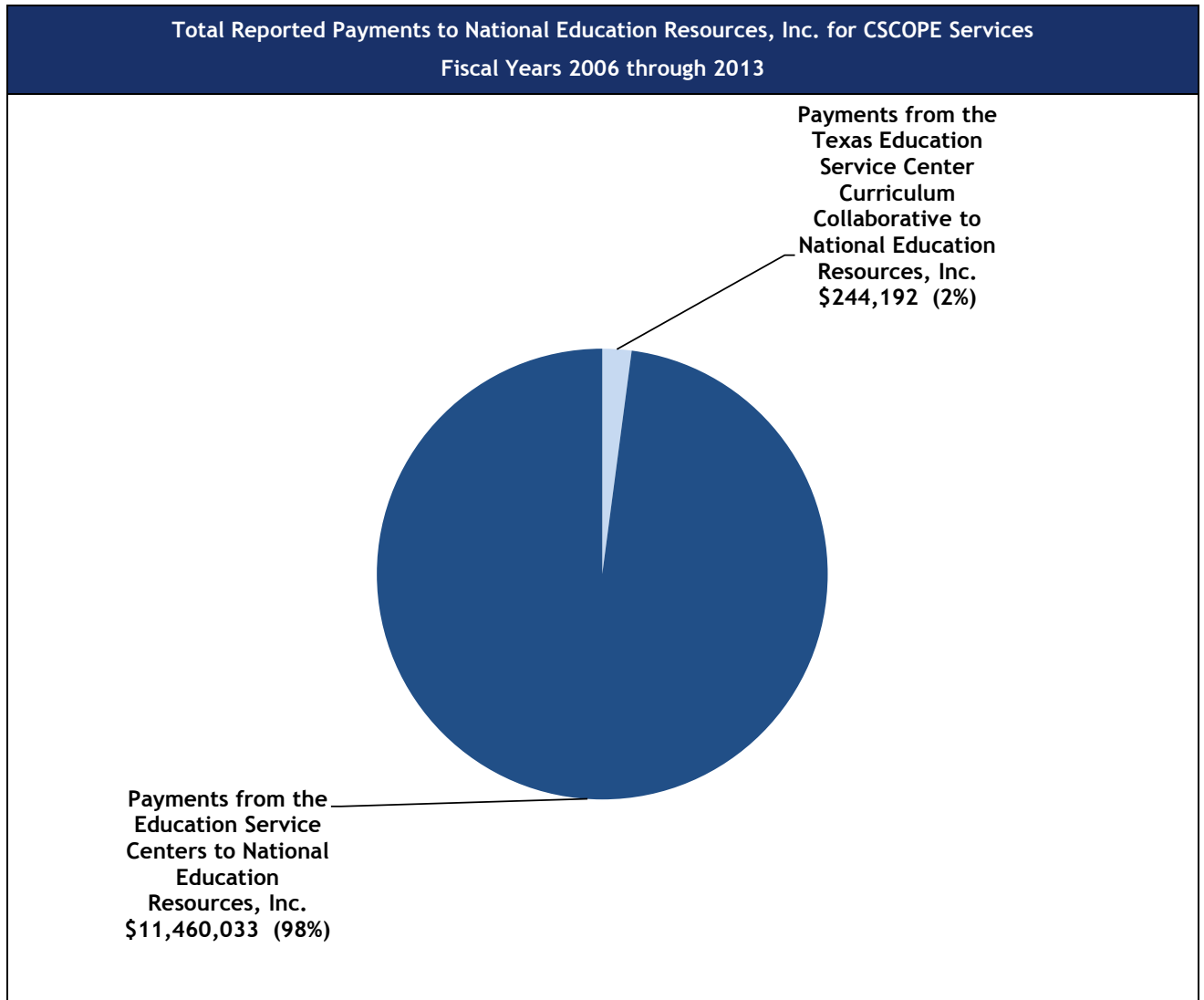
Figure 4



Source: Data provided by the education service centers.

Figure 5 shows the total amount that education services reported they paid to National Education Resources, Inc.

Figure 5



Source: Data provided by the education service centers.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Boards and Executive Directors of the 20 Education Service Centers in Texas



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