



# Secretary of State Audit Report

## Oregon Department of Education: Analysis of Spending for K-12 Support Services

### Summary

#### PURPOSE

In December 2002, we issued report 2002-45 that provided a snapshot of state-wide spending on elementary and secondary education in Oregon. That report found that Oregon's spending was higher than most other states, mostly due to a higher than average spending for support services. The purpose of this audit was to analyze spending for support services to identify methods that individual school districts may have developed to control spending. In addition, we wanted to determine if the Department of Education (department) could assist school districts in meeting the demand for cost-efficiency by providing additional information and analysis.

#### RESULTS IN BRIEF

Oregon's spending on support services continued at a higher level than in most other states, according to the most recent data available for the 2000-2001 school year. Consequently, a smaller portion of each dollar was available to be spent on instruction. We estimated that if all districts had spent the average amount in specific support services areas, more than \$162 million for that year could have been redirected for other purposes such as instructional activities.

Our audit found that improved and more detailed information about school district spending could strengthen public accountability and encourage the most efficient use of available resources. While the department has data available to show what districts are spending, we found that the department performed only limited review and analysis of this data. Further, the reports that are currently available from the department need clarification to make them more useful and to alleviate misinterpretations.

Our analysis showed support service spending varied widely among similar sized dis-

tricts. We also found that Oregon school districts have exercised a variety of strategies for controlling costs. While the effectiveness of any one of these strategies may vary from district to district, it appeared that school districts could benefit from knowing more about the methods other districts have taken to control spending. We identified some cost saving strategies used by districts with lower than average spending for support services, including the following:

- Reducing purchasing costs by taking advantage of economies of scale.
- Lowering costs by obtaining assistance from the community (e.g., volunteers, computer donations, education foundations).
- Sharing the cost for specialized staff between more than one school or district.
- Finding additional sources of funding to pay for instructional and other school programs.

Other states have implemented statewide systems for identifying and disseminating information about successful and cost-effective educational programs. For example, the education department in New York has developed the "Sharing Success" program, which identifies and shares information about successful, educational programs and practices. Officials in Michigan and Pennsylvania have contracted for school evaluation analytic services to help district and school managers focus on critical financial and operational issues.

#### OTHER MATTERS

Verifying the accuracy of data was not the purpose of our audit. During the course of our work, however, we noted some internal control weaknesses that need to be addressed to ensure reliable data. We conveyed specific

## Summary (continued)

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information about this matter to the department in a management letter dated May 3, 2004 (No. 581-2004-05-01).

### RECOMMENDATIONS

The department can promote greater accountability and cost-effective decision making within the K-12 system by providing appropriately detailed reports to the Legislative Assembly, school districts, and the public. Accordingly, we recommend that the department:

- Work with education stakeholders (e.g., Legislative Assembly, district

officials, members of parent teacher associations, etc.) to identify their information needs.

- Develop or contract for management information and public reports that are produced to support cost effective decision making.
- Strengthen procedures to ensure that expenditure data provided by school districts is reliable, and ensure that the data is reported correctly to the U.S. Department of Education.

### AGENCY'S RESPONSE

The Department of Education generally agrees with the information and recommendations included in our report. The department's written comments are included at the end of this report.

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## Introduction

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Since the passage of Measure 5 in 1990, paying for public elementary and secondary education has shifted largely from local governments to the state. Where state funds made up less than 30 percent of school funding before Measure 5, by the 2000-2001 school year considered in this report, the states' share of school costs had more than doubled to approximately 70 percent.

As paying for schools has increased for the state, so too has legislative interest in information about how education dollars are being used. Thus, in 1997 the Legislative Assembly directed the department to update the budgeting and accounting system in order to provide comparable information at the district and school level.

In response to this direction, the department started its data base initiative (DBI) project. The DBI system allows the department to provide both financial and performance data for all Oregon schools, districts, and education services districts (ESDs). DBI information is available online at: <http://www.ode.state.or.us/sfda/>.

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## Background

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The focus of this report is school district spending for support services. We chose this focus because our December 2002 report indicated that Oregon's spending in this area exceeded national averages. The prior report also found that support services had a large impact on total spending per student. Support services are "services provided to facilitate and enhance instruction." The following kinds of spending are tracked within the broad support services category:

- Business and Other Support Services
- Student Support Services

- School-Level Administration
- Student Transportation
- Instructional Staff Support
- General (District-Level) Administration
- Operation and Maintenance

Oregon's spending per student on support services continued to be higher than most other states, according to the most recent data available for the 2000-2001 school year. The state's higher than average spending on support services was driven by three spending

subcategories. These three subcategories within support services were: business and other support services, student support, and school-level administration.

For those three support service subcategories, more than \$162 million could have been redirected for other purposes such as instructional activities if all districts within the state had spent at the national average level during 2000-2001.

The following paragraphs briefly define the three largest expenditure sub-

## Background (continued)

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categories contained within support services.

### **“Business and Other Support Services” Includes Costs for Payroll, Printing, and Other Support**

The activities tracked in “business and other support services” include the following:

- Fiscal services (e.g., budgeting, payroll, and inventory control).
- Internal services (e.g., printing, publishing, and duplicating for the district – annual reports, school directories, newsletters, etc.).
- Information services (e.g., preparing information to disseminate to managers, staff, students, and the general public).
- Technology services (e.g., programming services and systems analysis services).
- Staff services (e.g., recruiting and placement, staff transfers, and fingerprinting of employees).

- Supplemental retirement programs.
- Other services (e.g., evaluation and grant writing).

In 2000-2001, the main cost drivers for Oregon’s business and other support services were supplemental retirement programs, fiscal services, and technology.

### **“Student Support Services” Tracks Costs for Attendance, Social Work, and Guidance**

Student support services are activities that are designed to assess and improve the well being of students and supplement the teaching process. Examples of student support services are attendance, social work, guidance, health, speech pathology, and audiology.

For Oregon in 2000-2001, staff salaries and benefits were the main cost drivers for student support services. Salary and benefit expenditures are dependent upon the number of staff, experience level and tenure of staff, and

the salary and benefit scale of the district.

### **“School-Level Administration” Shows Costs for School Principals and Department Chairs**

School-level administration expenditures include activities concerned with directing and managing the operations of a particular school or schools (this includes coordination of student activities). Staff classified under school-level administration includes principals, assistant principals, other assistants, and clerical staff in the office of the principal.

For Oregon in 2000-2001, staff salaries and benefits were also the main cost drivers within school-level administration. Salary and benefit expenditures are dependent upon the number of staff, experience level and tenure of staff, and the salary and benefit scale of the district.

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## Audit Results

### **Better Information Could Strengthen School Management and Oversight**

Our analysis of school district 2000-01 expenditures for support services showed spending varied widely among similar sized districts. To understand the reasons behind these large differences, we contacted officials in a sample of small, medium and large school districts. In each of these size categories, we selected school districts where we could see their support services spending in the areas of business and other support services, student support services, and/or school-level administration was either unusually high

or unusually low. We conducted detailed interviews and obtained additional documentation to understand the reasons for the variations and to identify methods that individual school districts may have developed to control spending.

The districts that had notably higher spending in one or all of the three support services categories (business and other support services, student support, and school-level administration) provided us with the reasons they felt their expenditures were higher. These reasons included:

- More negotiations of early retire-

ment agreements and increases to the amount of insurance contributions to the supplemental retirement program.

- Location of the district (remoteness /distance).
- Cost to maintain technology originally purchased with grant funds.
- Socio-economic status of the area (e.g., poverty rate, adult literacy rate, and mobility rate).
- Student population characteristics (e.g., declining enrollment and special education needs for students).

## Audit Results (continued)

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- Determined need for certain level of school administration (e.g., a full-time principal at a school or Directors of Student Achievement).
- Higher than average staff compensation or staff tenure.

Districts that had notably lower spending identified some potentially helpful and transferable strategies to help control costs. We categorized these strategies in the following areas:

- Using economies of scale to lower costs.
- Obtaining community, contracted, and shared resources.
- Using proactive management programs.
- Identifying additional sources of revenue.

The effectiveness of any one of these strategies may vary from district to district. However, it appeared that school districts could benefit from knowing more about the methods other districts have taken to control spending. In the following sections, we have provided illustrations of each of these strategies as school district officials described them to us.

### Economies of Scale

An economy of scale is buying products in large quantities to gain a larger discount. Another economy of scale is operating a facility at capacity allowing fixed costs to be spread out across the maximum amount of students.

Several districts from Lane County joined a consortium with other districts in order to achieve some economies of scale in different areas, such as the purchase of technical equipment.

Salem-Keizer School District has operated a purchasing co-op serving numerous educational and other public entities which helps to lower costs by purchasing at a higher volume (the Sa-

lem-Keizer School District spent 12 percent less per student on business and other support services than comparable sized districts).

Stanfield School District has a co-op with its ESD for purchasing and technical services, which staff said helped to ensure lower prices (the Stanfield School District spent 62 percent less per student on business and other support services than comparable sized districts).

In other cases, simply allowing the district to run district-wide contracts has resulted in better prices, according to staff from the Beaverton School District (the Beaverton School District spent 18 percent less per student on business and other support services than comparable sized districts).

Staff from the Gladstone School District reported that their district is operating three fairly large schools at near full capacity (the Gladstone School District spent 27 percent less per student on school-level administration than comparable sized districts).

### Community, Contracted, and Shared Resources

Some districts reported they used retirees, students, and other volunteers in high schools, instead of hiring district employees. Districts reported that they have been assisted by parents and other school supporters to drive students to athletic events (Prairie City School District), help maintain and improve facilities and grounds (Portland Public Schools and Crane School District), assist with classroom activities (Black Butte School District), and help with administrative duties (Pinehurst School District).

Several school districts, both small and large, that employ student support services staff (e.g., counselors, psychologists, speech pathologists) assigned them to more than one school. One district mentioned that it planned to go even fur-

ther and share staff with other districts. Rainier School District plans to reduce a special education position to half time and share that person with Clatskanie School District.

If a district could not afford to fund full-time specialists (e.g., speech pathologist, social worker, guidance counselor) for student support services there was the option of contracting with outside entities. For example, Falls City School District had a contract with Polk Mental Health to provide student and family support and counseling services (the Falls City School District spent 46 percent less per student on business and other support services than comparable sized districts). Other small and medium-size districts seemed to use ESD support to provide student support services.

Officials in the Prairie City School District decided to run their own buses after reanalyzing their transportation contract. These officials estimate this move will save the district about \$20,000 a year.

Staff from the Nyssa School District mentioned that they have worked with other public and private agencies to obtain computers (Nyssa School District spent 52 percent less per student on business and other support services than comparable sized districts).

Morrow School District personnel reported they had received help from the local recreation district to cover athletic costs. North Santiam School District officials stated that the City of Stayton provides help with an officer for student safety.

Some districts, mainly larger ones, have education foundations that assisted with a variety of costs. Education foundations are independent organizations that provide unique assistance to districts. Foundation assistance ranged from grants for enrichment programs, additional funds for classroom items

## Audit Results (continued)

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(e.g., textbooks, supplies, computers), scholarship programs for graduating seniors and returning college students, and management resources (e.g., consultation services and assistance with personnel training). Portland Public Schools education foundation helped buy back teacher contracts for some teachers the district has had to cut, applied for grants for the district, and funded ballot measures. Gladstone School District's education foundation provided funds for enhancing educational programs.

### Proactive Management Programs

Districts have approached student support services for special education in different ways. Smaller districts, such as the Prairie City School District and the Pine Eagle School District, have focused on using ESD's for student support services (the Prairie City School District spent 59 percent less and the Pine Eagle School District spent 65 percent less per student on student support services as compared to similar sized districts).

Staff from the Eugene School District said that their district took a proactive approach aimed at reducing the need for behavior management programs through individual education plans (the Eugene School District spent 20 percent less per student on student support services as compared to similar sized districts).

Beaverton School District personnel reported they had implemented better controls over allocation and authorization of expenditures, and they limited year-end purchasing of goods and services (the Beaverton School District spent 16 percent less per student on school-level administration than comparable sized districts).

### Additional Revenue Resources

A number of school districts have applied for and received grant funds. Some of the grants were instruction-related (e.g., Gervais School District's Oregon

Reads Grant), while others were aimed at promoting a safe school environment (e.g., Springfield School District's Safe School Grant) or funding after school and summer programs (e.g., Gervais School District's 21<sup>st</sup> Century Learning Grant).

Staff from the Gervais School District said that it received money by renting out a former elementary school. Portland Public Schools staff reported that their district had raised money by selling property, increasing facility use fees and leases, centralizing an exclusive contract for the sale of beverages, and raising participation fees for athletics.

Staff from the Springfield School District stated that it used some of its reserves built up over several years to maintain services to its students. Staff from the Eugene School District also said that it used money from its reserves for salaries and benefits. Further, staff from the Monument School District stated that it drew from a contingent reserve account to keep schools open all year long.

### Other Strategies

During our interviews, district personnel mentioned other steps they had taken to help with recent budget shortfalls. Some reported they had reviewed and implemented large district operating changes. For example, to respond to recent budget reductions, officials from the Springfield School District reported their district had eliminated three of the superintendent's cabinet team members, employed half-time administrators, and used head teachers instead of administrators at some elementary schools.

Eugene School District staff reported their district had convened a School Closure, Consolidation, and Replacement Committee, and the district had implemented several of the committee's recommendations. Since 2000-01, it closed three elementary schools and reduced principal time at three schools. In

addition, it plans on closing four more elementary schools and opening two new elementary schools in 2004-05.

### School Finance Data From the DBI System Can Be Difficult to Use and Understand

The department developed its DBI system largely in response to legislative concerns about the limited availability of information on school finances. While the department has collected a great quantity of data from districts, the department provided limited review and analysis of the data. Some school officials that we spoke to found DBI reports difficult to use in analyzing spending and making comparisons between districts. Of the districts surveyed, 48 percent stated that they wanted additional analysis with the DBI data; analysis such as comparisons with similar districts for expenses per student per program and expenses for employee insurance. In addition, some districts have hired consultants to create reports from the DBI data that are more useful to district management.

Our research suggests that policy makers and the public are interested in better information about how education dollars are being used. Incomplete and unclear school finance information increases public skepticism and hesitancy to provide necessary resources to support education. It could also lead policy makers and district management to make inappropriate or inefficient decisions.

The information and analysis in our prior and current reports provide examples of the types of information that could be useful. Other states (e.g., Michigan and Pennsylvania) are experimenting with private sector educational evaluation firms to meet their need for school evaluation reports. Both of these states have contracted with Standard and Poor's School

## Audit Results (continued)

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Evaluation Services for independent analysis and benchmarks to help district and school managers focus on critical financial and operational issues. Sample reports are available online at: [www.sp-ses.com](http://www.sp-ses.com).

Other states have implemented statewide systems for determining and shar-

ing information about successful and cost-effective educational programs. For example, New York has a program called “Sharing Success”. “Sharing Success” identifies and disseminates successful, research-based education programs and practices. The state’s education department also provides informa-

tion on cost-effective instruction and management/support practices.

Finally, during our audit we learned the Multnomah County Auditor’s Office also is in the process of establishing new, more accessible reports on education finance for its county’s districts.

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## Other Matters

The purpose of our audit did not include verifying the accuracy and completeness of DBI data. However, during the course of our work we noted some issues that need to be addressed so that Oregon’s data is comparable within the state and with data from other states.

We found that the DBI expenditure data was generally reliable but improvements on the accuracy and comparability of the data could be made. In analyzing expenditures and talking with district personnel, we found some inaccur-

rate recording of expenditures. The majority of the district inaccuracies had little to no effect on the statewide averages. However, inaccuracies do make an impact when reviewing and comparing expenditures at the district level. Some districts that had lower spending per student averages became average or higher when data was corrected.

In comparing Oregon’s DBI data submitted to the NCES, we found issues that affected the comparability of data. Generally, the data issues included the

following: submitting expenditures that other states exclude, categorizing expenditures slightly different than NCES instructions, including duplicate expenditures for a few districts, not allocating expenditures amongst related categories, and districts miscoding of significant expenditure amounts. The issues either caused Oregon’s expenditures to be overstated or understated.

We communicated detailed information about the data issues to the department in management letter 581-2004-05-01.

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## Recommendations

**We recommend** that the department:

- Work with education stakeholders (e.g., Legislative Assembly, district officials, members of parent teacher associations, etc.) to identify their information needs.
- Develop or contract for management information and public reports that are produced to support cost effective decision-making.
- Strengthen procedures to ensure that expenditure data provided by school districts is reliable, and ensure that the data is reported correctly to the U.S. Department of Education.

**Agency’s Response:**

*Thank you for taking the time to meet with us regarding your audit report entitled “Oregon Department of Education: Analysis of Spending for K-12 Student Support Services”.*

*This is a very timely report. The report highlights the importance of taking Oregon’s Data Base Initiative to the next level. We need to provide data on how schools are spending their dollars in a clear and transparent way. The Quality Education Commission Accountability Panel is currently articulating how the next generation of DBI will look and we will share this report with them.*

*We also need to make sure that we have analysts in state government who can interpret this data for decision makers. A major component of the recent reorganization of the Department of Education is the enhancement of our research capacity as part of the establishment of the Office of System Accountability and Policy Development. We expect that by receiving quality data, analyzing it carefully, and preparing easily understandable management reports we can accomplish the recommendations in your report.*

*Again, thank you for your time and the professional manner in which you and your staff conducted your audit.*

# Objectives, Scope and Methodology

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The objectives of our audit were to examine school district spending patterns to identify methods districts are using to help control spending and determine if the department could assist school districts in enhancing cost-efficiency by providing additional information and analysis.

The scope of our audit was limited to analyzing the most recent national and district expenditure data available at the time of our work, which was for the 2000-2001 school year. We performed our fieldwork between March 2003 and August 2003.

To accomplish the audit objectives, we:

- Reviewed the processes and controls in place for NCES data for data reliability and comparability.
- Obtained NCES 2000-01 public elementary and secondary education expenditure data and reviewed related NCES publications (e.g., statistics, reports, and data submission instructions).
- Obtained DBI data from the department for 2000-01, one file on all district and ESD expenditures and the other on expenditure data submitted for the national public education financial survey to NCES (from the prior audit). The data file of all expenditures was compared with a sample of districts and ESDs audited financial statements, DBI web reports, and the file of the data submitted to NCES. There were no material misstatements found. The same data files were used for this audit.
- Using DBI data, we calculated the current expenditures for support services categories for all districts. Current expenditures are the day-to-day operational costs of schools (excludes long-term expenditures such as capital outlays, debt service, facilities acquisition and construction services, and property expenditures). We grouped districts into student enrollment (fall enrollment stu-

dent count) and size sets. The sets were used to determine average spending (combined of district and ESD support) and the variances of spending per each of the three categories reviewed: business and support services, student support, and school-level administration.

- Surveyed a sample of 44 school districts that had unusually high or low expenditures per student according to DBI data from student enrollment size groups 1 (500 or less students), 3 (1,001-3,000 students), and 5 (more than 10,000 students) to explore the reasons for the variations in expenditures in one or more of the categories: business and other support services, student support, and school-level administration. The sample districts selected were: Arock, Astoria, Baker, Beaverton, Blachly, Black Butte, Brookings-Harbor, Brothers, Butte Falls, Chenowith, Crane SD 4, Diamond, Elkton, Eugene, Falls City, Gervais, Gladstone, Harney County SD 3, Imbler, Junction City, Mapleton, McKenzie, Medford, Milton-Freewater, Mitchell, Monument, Morrow, North Bend, North Clackamas, North Santiam, Nyssa, Pine Eagle, Pinehurst, Portland, Prairie City, Prospect, Rainier, Salem-Keizer, Sherman, Springfield, Stanfield, St. Paul, Ukiah, and Yamhill-Carlton. We also discussed with the sample districts opportunities for the department to provide assistance.
- Discussed coding issues, DBI data, and district responses with department personnel.
- Contacted 10 other states' education departments with questions related to expenditures submitted to NCES.

We conducted our audit according to generally accepted government auditing standards.



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*The courtesies and cooperation extended by the officials and staff of all the  
agencies audited were commendable and much appreciated.*

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