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*Auditing for a Better Oregon*

November 4, 2003

Susan Castillo, Superintendent  
Oregon Department of Education  
255 Capitol Street NE  
Salem, OR 97310-0203

Dear Ms. Castillo:

This letter summarizes the results of a risk assessment we recently completed at the Department of Education. The goal of the risk assessment was to identify any significant management risks associated with the department's duties and responsibilities. This letter presents the results of our work. It includes only those risks we rated above medium. We have included background information, as well as potential mitigating actions the department could take to address each risk. This summary is intended to be informational in nature and not an all-inclusive or formal presentation of audit findings or recommendations.

This letter also includes an assessment of the department's efforts to implement audit recommendations we provided previously.

We appreciate the time and effort your staff provided as we completed this work. Should you have any questions, please feel free to contact me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

David Dean, MPA  
Audit Administrator

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Management Letter No. 581-2003-11-01

## **General Risks**

### **1. The feedback and assistance the department provides to districts and schools on financial, performance, and assessment data may not be adequate.**

Background: Concerns have been raised, both within and outside the department, about the quality and timeliness of the feedback the department provides on such data. For example, school district representatives indicated that they did not receive adequate feedback and assistance with Database Initiative (DBI) data. Also, a department manager stated that the department's feedback on student assessments has not been adequate. Finally, a representative of school districts noted that testing results were not provided to teachers on a timely basis.

#### Potential Mitigating Actions:

- Ensure that data provided to districts is in a form that is understandable and that it is provided on a timely basis.
- Work with districts and schools to ensure that the department provides adequate feedback on and assistance with financial, performance and assessment data.

### **2. State School Fund money may not be used as intended.**

Background: Department management has acknowledged that there has not been ample accountability for the way in which state school funds have been used, including K-12 formula funding. Management indicated that the department could do more to monitor district/school use of this funding.

#### Potential Mitigating Actions:

- Monitor the use of state school funds to ensure that it is efficient and effective. This could involve making annual comparisons to prior year spending and between districts to identify potential inefficiencies, and using DBI data to a greater extent to monitor the use of funds.

## **Operations Risks**

### **1. Payments to districts/schools may not be accurate.**

Background: The department is responsible for calculating payments to schools, which are based on a funding formula that includes various factors. In accordance with state law, districts are required to have their books and accounts audited. The audit must also include a review of funding formula factors.

Notwithstanding the audit requirement, concerns have been raised about the accuracy of the funding factor data districts/schools submit. Concerns also have been raised about the loss of

key department staff members who have formula factor expertise and familiarity with potential problems with data districts/schools submit.

Department management noted that some functions related to school payments have been automated.

Potential Mitigating Actions:

- Implement policies and procedures to verify that formula factor data supplied by districts are accurate.
- Hire or train experienced staff to verify the accuracy of funding factor data by reviewing it for errors and inconsistencies.

**Instructional Services Risks**

**1. Schools may not be able to achieve adequate yearly progress requirements for all subgroups of students, as required by the federal No Child Left Behind legislation.**

Background: The federal No Child Left Behind legislation requires schools to meet adequate yearly progress (AYP) targets. Oregon's plan for achieving AYP requires every public school in Oregon to get 40 percent of its students to meet state reading standards and 39 percent of its students to meet state math standards. Schools must meet increasing AYP targets each year, and 100 percent of students must meet state reading, math and science benchmarks by 2014. Schools must achieve those targets for all students, including disabled, low-income and minority students, and students who speak English as a second language. Schools that fail to do so are subject to escalating consequences, ultimately resulting in school restructuring.

Department management stated that there is a risk that some subgroups of students will fail from the beginning if they are required begin at the same assessment starting point. Management also noted that the department will provide support to schools that addresses both AYP requirements and analysis of assessment results.

Potential Mitigating Actions:

- Provide leadership and technical assistance to assist schools in meeting AYP requirements for all subgroups.

**2. The department may not be doing enough to assist schools in analyzing assessment results.**

Background: Department management stated that ODE has not done enough to help districts and schools analyze assessment data and that most of the department's efforts have gone into the development of the tests. Management also stated that some schools do not have the

expertise needed to analyze assessment results. As a result, schools could make erroneous conclusions about the data and misdirect resources. Finally, management added that the department could be doing a better job of pointing out to schools where to focus their resources given assessment results.

Potential Mitigating Actions:

- Work with schools to determine what assistance they need to analyze and act upon assessment results, and provide that assistance.

**3. The department may not be ensuring that all schools are complying with the Standards for Public Elementary and Secondary Schools.**

Background: Chapter 581, Division 22 of the Oregon Administrative Rules sets forth the Standards for Public Elementary and Secondary Schools. These standards address a broad range of requirements such as diploma requirements, required instructional time, daily class size, instructional programs, and emergency and safety programs.

The department used to evaluate compliance with these standards by visiting all districts on a rotational basis; however, the department recently reduced its evaluations to districts that request a visit or districts for which they receive a complaint. According to department management, a lack of capacity and resources continues to limit the department's efforts to evaluate compliance with the standards.

Potential Mitigating Actions:

- Monitor all schools, on a regular basis, to ensure that they are complying with the Standards for Public Elementary and Secondary Schools.

**4. Districts may not be pursuing federal Medicaid reimbursement opportunities.**

Background: A report released by Kansas' Legislative Post Audit Committee showed that school districts in Kansas could claim from \$14 million to \$19 million in additional Medicaid reimbursements by taking certain actions.

The department intends to pursue such opportunities in Oregon by creating a full time Medicaid Coordinator position that would be jointly funded by the Department of Education and Department of Human Services. The person filling this position would provide technical assistance to districts focused on identifying and billing for Medicaid reimbursable services.

Potential Mitigating Actions:

- Conduct training and provide technical assistance to districts that will allow them to identify and correctly apply for Medicaid reimbursements.

**5. School districts may not properly identify and provide appropriate services to talented and gifted students.**

State law requires school districts to identify and provide services to all talented and gifted (TAG) students. Information we obtained indicates that, in general, schools' efforts in this regard have not been adequate. In addition, the department has devoted little in the way of resources to monitoring TAG programs. Department management agreed that this continues to be a significant risk.

Potential Mitigating Actions:

- Increase monitoring efforts to ensure that TAG students are identified and provided appropriate programs and services.

**Status of Previous Audit Recommendations**

The following is an update on the department's efforts to implement recommendations the Audits Division made between 1998 and 2002. This update discusses only recommendations we had not previously reported as fully implemented.

**Oregon Department of Education – Child and Adult Care Food Program – A Child's Place (Report No. 98-40)**

**Recommendation:** Closely monitor A Child's Place to ensure it is in compliance with program regulations and requirements.

**Status:** Implemented

According a department official, the department conducted an administrative review on May 1, 2001 and cited A Child's Place with two findings. The official stated that the program sponsor submitted adequate written corrective actions and that the department considers the sponsor to be in full compliance. The official added that A Child's Place has met annual renewal requirements, including an extensive management plan that documents systems to ensure compliance with Federal regulations.

**Department of Education – Public School Infrastructure – Opportunities to Improve Planning and Funding (Report No. 2001-20)**

**Recommendation No. 1:** Provide additional guidance to school districts to help implement facilities management best practices

**Recommendation No. 2:** Explore options for creating a dedicated, stable, and equitable funding source for school facilities.

**Status:** Not Implemented

Department management stated that the department is not responsible for school infrastructure and does not consider providing districts with additional guidance relating to infrastructure a core function. Management noted that the department does not want to take on additional responsibilities that are not core functions. Accordingly, unless it receives legislative direction to do so, management does not intend to become involved with school infrastructure.

### **Oregon Department of Education – Special Review – Personnel (Report No. 2002-23)**

**Recommendation No. 1:** Review questioned costs identified in this audit report and consult with the Department of Justice to determine appropriateness and potential recovery of any amounts improperly paid.

**Status:** Implemented

Based on legal advice it received from the Department of Justice, department management determined that the contracts in question were binding as written and expenditures paid would not be recoverable. Management added that the department has taken steps to insure that subsequent contracts are both legally sufficient and appropriate. Regarding the \$18,700 overpayment to a former executive service employee, management stated that the Department of Justice found that, while documentation was lacking, the department obtained the identified services for the wages paid and that there was an insufficient basis to pursue formal action in a cost effective manner.

**Recommendation No. 2:** Competitively recruit to fill state positions. If competitive recruitment does not result in qualified applicants, and school district employees are used, the department should periodically recruit to fill these positions.

**Status:** Implemented

According to management, the department will recruit to fill top-level positions in a competitive manner consistent with state policies. Management noted that for positions below the level of

Deputy Superintendent, Assistant Superintendent, and Associate Superintendent, the department relies on a competitive recruitment process.

**Recommendation No. 3:** Hire permanent employees to fill executive service positions.

**Status: Implemented**

Management stated that the department does not now have and will not have contractors performing executive duties. Management added that, based on advice from the Department of Justice, the department has established a procurement unit to ensure that department contracts comply with all applicable contracting rules and regulations.

**Recommendation No. 4:** Follow state personnel policies.

**Status: Implemented**

Management stated that department policies and procedures have been updated and are available to all staff via the Intranet. Management stated further that a process is in place for necessary revisions and updates.

**Recommendation No. 5:** Develop and implement written policies and procedures to ensure that all personnel actions are appropriately reviewed and approved by management, adequately documented, and regularly and consistently monitored. Documentation in employee personnel files should be detailed enough to justify any personnel action and support that all state policy requirements are met.

**Status: Implemented**

According to management, the department has created and filled a human resource manager position and has taken significant steps to design and implement procedures to strengthen controls over personnel records. Management stated that efforts to date include:

- an audit of all personnel records for consistency and documentation of employment pay status;
- development of internal protocols to insure there is adequate justification and documentation for pay differentials;
- an update of all agency position descriptions;
- establishment of security protocols that insure record confidentiality; and
- management training regarding records compliance

**Recommendation No. 6:** Contact the appropriate agency, either the Department of Administrative Services or the Department of Justice, to review the leadwork duties described in the classification description for Education Program Specialist 2's and the Collective Bargaining Agreement to determine appropriateness of leadwork differential pay.

**Status: Implemented**

Management stated that since the Collective Bargaining Agreement controls leadwork practices, the department consulted with the Department of Administrative Services' Human Resource Services Division (DAS HRSD). DAS HRSD determined that the department's application of leadwork was consistent with applicable provisions of the Collective Bargaining Agreement. Management added that the agreement provides for a dispute resolution process should an employee or the union believe the agreement was not followed. Management stated that it had not received notice by an employee or the union in this regard.

**Recommendation No. 7:** Determine if Education Program Specialist 2 employees currently receiving leadwork differential payments are performing qualifying leadwork duties. Also, provide instruction to managers on what duties would qualify an employee for the differential and what documentation is required to justify the payment.

**Status: Partially Implemented**

Information provided by management indicates that the department has taken action to implement this recommendation. However, during a recent audit, the DAS HRSD found that four of 15 sampled employees (approximately 27 percent) were not formally assigned leadwork responsibilities outlined in the collective bargaining agreement. As reported by the division, "formally assigned" implies "in writing." Given this finding, it appears that the recommendation has not been fully implemented.

**Recommendation No. 8:** We recommend that the department follow the Government Standards and Practices Commission (GSPC) advisory opinion by not allowing employees to make personal long-distance calls with state telephones, even if reimbursement is made. The department should review the questionable calls identified in this audit to determine their allowability and seek advice from the Department of Justice concerning further action. In addition, the department should periodically review the telephone records of other department employees not included in this review.

**Status: Implemented**

Management indicated that the department no longer allows employees to make personal calls and then reimburse the state for those calls. Management noted that all calls referenced in the

audit findings were accounted for and, where appropriate, reimbursement was received. Finally, management stated that procedures are in place for regular review of all long distance calls on an office-by-office basis.

**Oregon Department of Education: Special Review – Personnel, Management Letter No. 581-2002-05-01**

**Recommendation No. 1:** We recommend that the department seek reimbursement for the overpayment that resulted from a billing error. In addition, the department should review the job rotation agreement with the district to determine what portion of benefits paid for the half month of service should have been prorated and seek reimbursement if appropriate.

**Status:** Partially Implemented – No Further Follow Up Needed

Management stated that the department reviewed the referenced payment and does not agree that any overpayment or billing error occurred. Management stated further that the Department of Justice advised that even if there were a billing error, recoupment would not be a cost effective use of public resources.

**Recommendation No. 2:** We recommend that the department work with the Department of Administrative Services to determine what codes should be used to properly record these differential payments.

**Status:** Implemented

According to management, the department has reviewed the available Oregon State Payroll Application payment codes and is now appropriately coding the hours in question as SAN (compensation for time spent in activities outside normally assigned duties).

**Recommendation No. 3:** We recommend that all extensions of agreements in the future be executed in writing.

**Status:** Implemented

Management stated that all agreement extensions are now processed in writing consistent with the audit recommendation.