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*Auditing for a Better Oregon*

November 22, 2004

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

Dear Ms. Castillo:

In June 2004, your Deputy Superintendent of Operations requested that we review the department's use of the State School Fund to provide transition services to youth outside of correctional and detention facilities. This letter presents the results of our review. Our primary objective was to determine the amount of State School Funds the department spent inappropriately on transition services. As discussed below, we were unable to find complete records of such expenditures. Therefore, we cannot provide a precise accounting of the amount spent inappropriately. However, below we present an estimate based on available information. We also discuss weaknesses we observed in the department's use of intergovernmental contracts, as well as more recent actions the department has taken to address these weaknesses.

### Background

As you know, the department is responsible for funding educational services for youth in the Youth Corrections Education Program (YCEP) and Juvenile Detention Education Program (JDEP). Transition services, which are a component of these programs, are designed to promote the movement of a youth from school to post school activities. Examples of transition services include post-secondary education, vocational training, and independent living skills training.

The department procures transition services through inter-governmental contracts, mainly with school districts and education service districts. Some of these contracts are for multiple services; others are for transition services only. State School Funds are the largest source of funding for transition services, but federal funds are also used.

Effective June of 2001, HB 3619 limited the department's funding and responsibilities under YCEP and JDEP to youth housed in a correction or detention facility. On two occasions following the passage of HB 3619, the department requested advice from the Department of Justice (DOJ) regarding the scope of its authority under these programs. In November of 2001, DOJ advised the department that its responsibilities under YCEP were restricted to youth housed in a correction facility and did not include paroled youth. In April of 2004, DOJ advised the

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department that it had no authority to provide or fund transition services, or an evaluation of these services, to paroled youth or youth on probation. According to department management, after receiving the April 2004 advice, the department informed its contractors that it would not fund transition services after June 30, 2004.

### Results and Methodology

We estimate that the department inappropriately spent between \$684,000 and \$1,568,000 in State School Funds on transition services between June 2001 and June 2004. As discussed in more detail below, this range is based on the amount of time a subset of transition specialists spent with clients outside a correction or detention facility. Using the average amount of time these specialists spent with clients outside one of these facilities results in a point estimate of \$1,101,000. The misspent funds could have been used for other services typically funded with State School Funds, such as teacher salaries, administrator salaries, and supplies. Since we were unable to find complete records that identified how much funding and time were spent on transition services, including transition services provided to youth who had left a correction or detention facility, we based our estimate on the best information available to us. We developed this estimate as follows:

- We identified 15 contracts that included transition services during the period June 2001 to June 2004. To do so, we reviewed intergovernmental contracts, interviewed department staff, and reviewed transactions recorded in the State Financial Management Application (SFMA). Some contracts were for multiple services. Because the actual amount spent on transition services under these contracts was not available, we assumed that the entire amount the department allocated for transition services was spent on such services. The remaining contracts were for transition services only. For these contracts, we reviewed SFMA transactions to determine the amount spent.
- For each contract, we reviewed SFMA transactions to determine the percent of total payments that was comprised of State School Funds. We then applied these percentages to the amounts allocated for or spent on transition services.
- To estimate the percent of transition services provided to youth who had left a correction or detention facility, we analyzed 4 transition specialist work logs. According to department management, there were 13 transition specialists under contract during the 2003-2004 school year. Therefore, the four logs represent about 30 percent of the transition specialists under contract during this period. These transition specialists spent from 41 percent to 94 percent of their time with youth who had left a correction or detention facility. On average, they spent 66 percent of their time with youth outside one of these facilities.
- Finally, to estimate the amount of State School Funds spent inappropriately on transition services, for each contract, we applied the percent of time the above transition specialists spent with clients outside a correction or detention facility to the amount of State School Funds spent on transition services. Using the 41 percent to 94 percent range of time the specialists spent with youth outside a facility results in inappropriate expenditures ranging from \$684,000 to \$1,568,000. Using the 66 percent average amount of time they spent with youth outside a facility results in an estimate of \$1,101,000 spent inappropriately.

- According to department management, the department has yet to determine the amount due for transition services that were provided outside of an existing written contract. Therefore, our estimates of inappropriate expenditures do not include payment for these services.

### Recommendation

We recommend that the department consult with DOJ regarding whether the inappropriately spent State School Funds should be recovered and, if so, how. We also recommend that the department consult with DOJ and/or the appropriate legislative committee regarding whether the misspent State School Funds should be replaced so that the State School Fund is made whole. If it is determined that the department should recover and/or replace the State School Funds spent inappropriately, we recommend the department consider attempting to obtain more complete and accurate information on how much was spent on transition services provided outside of a correction or detention facility.

### Observations Regarding Intergovernmental Contracts

During the course of our review, we noted the following additional issues that we feel warrant your attention:

- Eleven of the 15 contracts were not executed in a timely fashion. Specifically, these contracts were signed three to seven months after the beginning of the contract period.
- Ten of the 15 contracts did not contain sufficient detail regarding transition services, such as a specific description of what the services should include and their dollar value.
- We question whether the department had adequate assurance that it received the transition services for which it paid. Specifically, the department did not obtain complete records of transition services expenditures or work performed.
- The department did not receive a payment as required in an interagency contract it had with the Department of Human Services (DHS) and the Oregon Youth Authority (OYA). The purpose of the contract was to establish a pilot project for youth with disabilities that were transitioning from correction facilities to community based employment. It required the department and OYA to transfer a total of \$120,000 of state general funds to DHS, and DHS to transfer \$40,000 in federal and other funds back to the department. DHS did not transfer the funds to the department, resulting in a \$40,000 loss to the department.
- According to department management, the department currently intends to pay for transition services that were provided without a written contract in place.

The department recently took the following actions that should decrease the risk of future misuse of State School Funds and improve the contracting process:

- As noted above, according to department management, contractors have been informed that the department will no longer fund transition services for youth who have left a correction or detention facility.

- According to department management, a department-wide reorganization occurred in April 2004. It included creating a process to centrally review and manage contracts to ensure that they are funded appropriately.
- The department now requires that procurement documents be executed prior to any performance of service or delivery of product.
- The centralized procurement policy now requires that a contract administrator monitor vendor progress, inspect work, approve invoices, and maintain records.
- According to department management, the department will require contractors to report annual expenditures, including specific amounts spent on each service. This requirement is designed to ensure that services are provided as stated in contracts, and that payments are appropriate. The target date for using the new reports is July 2005.

Should you have any questions regarding this work, please feel free to call me at (503) 986-2255.

Sincerely,  
OREGON AUDITS DIVISION

William Garber, MPA, CGFM  
Audit Manager

WG:bk

cc: Nancy Latini, Assistant Superintendent for the Office of Student Learning and Partnerships  
Bret West, Director of Management Services  
Jay Gense, Administrator, Youth Corrections Education Program  
Jim Scott, Internal Auditor