

SUPPLEMENT TO LEGISLATIVE AUDITOR'S REPORT NO. 89-18
EVALUATION OF THE ADMINISTRATIVE FLEXIBILITY LEGISLATION
AFFECTING THE DEPARTMENT OF EDUCATION AND
THE UNIVERSITY OF HAWAII
ACTS 320 AND 321, SLH 1986

FINAL REPORT

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by the
Legislative Auditor of the State of Hawaii
Honolulu, Hawaii

March 1989

AGENCY RESPONSES

Our customary procedure is to submit preliminary drafts of our reports to affected agencies for their review and comment prior to issuing the final reports. However, due to the exigencies of time associated with the schedule of the 1989 legislative session, we were unable to circulate the final report of the *Evaluation of the Administrative Flexibility Legislation Affecting the Department of Education and the University of Hawaii* for such review and comment before submitting it to the Legislature. Nevertheless, we did advise the affected agencies--the University of Hawaii, the Department of Education, the Department of Budget and Finance, and the Department of Accounting and General Services--that if they still wished to comment on this report we would distribute their written responses to all those to whom we sent the original report.

Such responses have been received from the Chairman of the Board of Regents of the University of Hawaii, from the President of the University of Hawaii, and from the Superintendent of the Department of Education. These responses are included herewith as Attachments 1, 2, and 3 respectively. Two exhibits transmitted with the response from the Department of Education are not included but are available for inspection in the Office of the Legislative Auditor and at the Department of Education. These exhibits include: (A) *Current System Payroll Function: Requirements Report* and (B) *Educational Assessment and Accountability Plan: Technical Report* prepared for the Department of Education by the Northwest Regional Educational Laboratory.

The Chairman of the Board of Regents of the University of Hawaii has found our report to be an objective and constructive review and assessment of the administrative flexibility legislation and indicates that the university administration will take appropriate follow-up actions on the report's findings and recommendations. The President of the University of Hawaii also concurs with the report's recommendations relating to the university and states that actions have been initiated to resolve several procedural issues relating to the implementation of Act 320, SLH 1986, that were identified in the report. He further indicates that the university intends to move quickly to implement the newly adopted Board of Regents policy on educational assessment.

While concurring with several of our recommendations regarding the implementation of the flexibility legislation, the Department of Education feels it should be given more time to evaluate alternatives concerning the payroll function before any final decision is made to leave this function with the Department of Accounting and General Services. The Department of Education also strongly concurs with our view that educational assessment is to be preferred over detailed operational control as a means of achieving accountability, but cautions against taking too hasty action in this area and emphasizes the need to take a systematic and careful approach.

ATTACHMENT 1



Board of Regents of the University of Hawaii

Bachman Hall 209, 2444 Dole Street
Honolulu, Hawaii 96822
(808) 948-8213

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OFF. OF THE AUDITOR
STATE OF HAWAII

MEMORANDUM

February 27, 1989

Chairman

Mrs. Gladys A. Brandt

Vice-Chairman

Dr. Kenneth N. Kato

Members

Mr. Robin K. Campaniano

Mr. James F. Gary

Mr. Edward M. Kuba

Mrs. Ruth M. Ono

Mr. Herbert M. Richards Jr.

Mr. H. Howard Stephenson

Mr. Roy Y. Takeyama

Mr. John T. Ushijima

Mr. Dennis R. Yamada

TO: Newton Sue, Acting Legislative Auditor
State of Hawaii

FROM: Gladys A. Brandt
Chairman, Board of Regents *G. Brandt*

SUBJECT: EVALUATION OF THE ADMINISTRATIVE FLEXIBILITY
LEGISLATION AFFECTING THE DEPARTMENT OF
EDUCATION AND THE UNIVERSITY OF HAWAII, ACTS
320 AND 321, SLH 1986 FINAL REPORT

On behalf of the Board of Regents, I would like to thank you and your staff for the investment of time and effort devoted to giving the University a constructive review and assessment of the University's administrative flexibility legislation. We find the views of an objective third party useful in our ongoing implementation of Acts 320 and 321, and we appreciate your professional assistance. The administration has undertaken a review of the findings of the report and an analysis of the various recommendations. Follow-up activities will be undertaken as appropriate.

GAB:mmm

cc: Members, Board of Regents
President Albert J. Simone

ATTACHMENT 2

UNIVERSITY OF HAWAII • HONOLULU, HAWAII 96822

February 23, 1989

PRESIDENT

Mr. Newton Sue
Acting Legislative Auditor
State Capitol

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OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Sue:

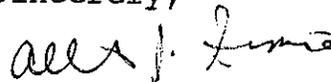
SUBJECT: EVALUATION OF THE ADMINISTRATIVE FLEXIBILITY LEGISLATION AFFECTING THE DEPARTMENT OF EDUCATION AND THE UNIVERSITY OF HAWAII, ACTS 320 AND 321, SLH 1986 FINAL REPORT

The University wishes to thank the Legislative Auditor for the subject report and to compliment the Auditor's staff on the professional manner in which they carried out the difficult task of evaluating the flexibility legislation affecting the University of Hawaii.

The University concurs with the recommendation that Acts 320, and 321, Session Laws 1986 be extended. In the case of Act 320, we also concur with the recommendation to replace the requirement for prior executive approval for transfers between programs with one that would require executive approval only when a given limit is exceeded. The audit report identifies several procedural issues relating to implementation of Act 320. We are aware of these and have initiated actions internally and with affected external agencies to resolve these matters.

With regard to educational assessment, we believe the auditor's report has highlighted our progress and identified areas where more work remains to be done. We intend to move as quickly as resources permit to implement the newly adopted Board of Regents policy on assessment. We view assessment as a necessary "state of mind" that will lead to the routine collection of outcomes data for use in the University's ongoing program review, accreditation, academic planning and budgeting processes.

Sincerely,



Albert J. Simone
President

cc: Gladys A. Brandt, Chairman, Board of Regents
Board Secretary Shiramizu
University Executive Council



STATE OF HAWAII
DEPARTMENT OF EDUCATION

P. O. BOX 2360
HONOLULU, HAWAII 96804

February 27, 1989

OFFICE OF THE SUPERINTENDENT

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OFFICE OF THE AUDITOR
STATE OF HAWAII

Mr. Newton Sue
Acting Legislative Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813

Dear Mr. Sue:

This is the Department of Education's response to the Legislative Auditor's report titled **Evaluation of the Administrative Flexibility Legislation Affecting the Department of Education and the University of Hawaii**, dated February, 1989.

Sincerely,

A handwritten signature in cursive script that reads "Charles T. Toguchi".

CHARLES T. TOGUCHI
Superintendent

CTT-LMA:sts

Attachments

cc: Budget Branch

February 28, 1989

RESPONSE TO THE LEGISLATIVE AUDITOR'S REPORT ON THE
IMPLEMENTATION OF ACTS 320 AND 321

FLEXIBILITY LEGISLATION:

GENERAL COMMENTS:

Before we react to the specific recommendations contained in the audit report, two points need to be made.

First, while it is true that no major management improvements have so far resulted from the takeover of the financial functions, this condition is temporary. Within the next three years, we expect major improvements in all facets of financial operations including budgeting, allotment control, expenditure planning, accounting, purchasing, inventory, vouchering, storeroom operations, and financial reporting. Since taking over the functions two-and-a-half years ago, the DOE staff has been working diligently to study the functions (identifying problems, possible solutions, setting up task forces and committees, interviewing and surveying a multitude of users), and most recently, evaluating the way information and documents are currently processed, looking for ways to do the functions better, faster, more accurately. In this endeavor, staffs at all levels - school, district, and state personnel - have been involved. During the last 8 months, the staff has been doing a more detailed requirements study of each function. This study has just been completed. Within the next two months, software vendors will be examining the requirements and submitting bids.

From the beginning, DOE's plan was not just to take over and continue past practices. On the contrary, DOE's plan was to evaluate the way the functions were currently performed, and if warranted, modernize and integrate the functions, minimize the paperwork and delays, and make financial management for the schools as efficient and effective as possible. We are now on the verge of realizing these major improvements.

Secondly, we believe that it is not enough to transfer a function from a central agency to DOE. The key is to decentralize the function to the individual schools, integrate them, and use the latest computer technology to minimize duplications, excessive paperwork, errors, centralized reviews, and processing delays. If the functions are merely transferred from DAGS to a DOE central office and DOE still operated in a centralized manner with nothing happening for the users in the schools, then in this instance, the only beneficiaries of the transfer are the few people in the DOE central office. There would be no real benefits to the thousands of students, teachers, school administrators, and other users and consumers in the schools. The idea is to decentralize and modernize the functions

so that the schools can do them easily, and be accountable for their own allotments, for their own accounting, for their own purchasing, for their own inventory, for their own financial affairs. Most of the pre-audit functions previously done by a central office such as verifying the calculations, the price, the vendor codes, the organization codes, the account codes, and other information on the documents can easily be done by the computer at the point of initial input. Also, there is no need to provide the same information such as name of school, address, principal's name, phone number, organization code, etc., on each document whenever a transaction or request is made. The data need be input only once and used to satisfy all transactions and reports. Also, rather than transmitting forms and information by paper through the mail, the computer can transmit them instantaneously via the terminals. The computer can also integrate the information and generate useful management reports for all interested parties. Today, the technology is available to allow DOE to operate in a decentralized manner. By using the computer to assist in filling out forms, performing calculations, researching information, verifying data, and reducing the processing time and red tape, the school staff can use their time more productively to teach, counsel students, design curriculum, prepare lesson plans, meet with parents, etc.

Auditor's recommendation: DOE bring its payment of interest penalties on overdue payments to vendors in line with DAGS.

DOE comments:

We concur that DOE practices on interest for late payments to vendors should be the same as DAGS. On this matter, we note that for 95 percent of the interest payments, and these are the ones under \$5, DOE's policy is the same as DAGS, which is to have the vendor bill DOE within 30 days. However, for interest in excess of \$5, and these comprise only 5 percent of the cases, DAGS pay automatically while DOE requires the vendor to bill them. Paying such interest charges automatically does pose problems for the DOE and the schools. However, DOE will work to solve these problems and will adjust its practices to bring it in line with DAGS.

Auditor's recommendation: DOE halt its efforts to take over the payroll function and transfer the function back to DAGS.

DOE comments:

DOE should be allowed to evaluate the alternatives in the payroll function before any decision on non-retention is made. UH may have found no problems with its payroll system and may have preferred to transfer the function back to DAGS. The situation at DOE is not the same. There are several reasons why DOE wants the flexibility to consider the takeover of the payroll

function. First of all, based on DOE's study of its payroll system, some serious problems have been revealed. These are listed below. (See Exhibit "A" for more details on the problems of the current payroll system, the requirements of the new payroll system, and the benefits of the new system.)

1. The current payroll system is labor intensive. Substantial manual effort is required in processing payroll information by the users in the schools, state and district offices, and the central payroll office. Manual work includes maintaining and posting to various card files, transcribing information, and processing paper such as time sheets.
2. Data redundancy. The same manual payroll/personnel records are stored at numerous organizational levels including the schools, district offices, central DOE payroll office, and DAGS. Also, much the same data is currently stored in separate state office files including the personnel file, payroll file, position file, and leave accounting file.
3. Lack of file integration. None of the files are integrated. To maintain the same information in various files is costly, time-consuming, and results in many errors.
4. Limited reporting capabilities. Because of the many duplicate files and the difficulty of integrating the information, there are serious reporting limitations. Meaningful reports for users and managers at all levels of department including the schools, districts, and state offices are lacking.
5. Lack of integration of DOE policies, union rules, and payroll processing. Many DOE policies and union rules are not incorporated into the current payroll system. This makes adherence to such policies and rules difficult and time-consuming. For example, a half-time employee should work only 4 hours per day. If the employee works more than 4 hours per day, there are no system edits to warn that the incidence took place.
6. Delays in paying employees. While old time employees usually get paid on time, new salaried employees and hourly employees may not. Unless the SF-5s and time sheets are processed by the day after payday, the employee will not be paid what is due them on the following payday. This early cutoff date has caused late payments for new employees and some hourly-paid people.
7. Different coding system used by the different files. DAGS payroll system does not use the same fields as the statewide account code fields. Also, the position numbers used by the personnel and budget offices to identify each

position are not used by the current payroll system, which uses social security numbers. The different coding systems used by different offices present a variety of problems including duplications in data inputs, inability to relate the files, difficulty of preparing management reports, increasing the chances of errors, and added work.

The current payroll system was developed by DAGS over twenty years ago. Since then, considerable improvements have been made by the software industry that designs payroll systems. In the light of many of the problems inherent in the present system, DOE should be allowed to evaluate the various software packages to better understand the true advantages and disadvantages of assuming the payroll function. We fully realize that the installation of a new payroll system means more initial work for everyone, especially for the DOE payroll office. However, at this point, it does appear that the benefits of a new payroll system to the thousands of employees in the 235 schools and the district and state offices are greater than the work and costs involved. For these reasons, we ask that DOE be allowed more time to evaluate the costs and benefits to transferring of the payroll function. We further note that DOE will not proceed with the implementation of a new payroll system without prior legislative approval.

Auditor's recommendation: Examine the new financial management system to see if it is compatible with school-based management.

DOE comments:

One reason for the development of the new FMS was the same reason for adopting school-based management: too much centralized controls and top-down decision-making, and the desire to operate in a decentralized manner. The 1988 FMS study had this to say about DOE's financial system:

"[It is] cumbersome, centralized, [and] generates a paper blizzard and excessive red tape for over-burdened school employees. This heavy burden makes it very difficult for the school system to focus on improvement efforts because leaders and employees are forced to spend much of their time attending to paperwork, complying with various regulatory requirements and processing day-to-day transactions... [There is] need to promote decentralized initiative and flexibility within the organization... [There is] over-regulation, and [lack of] decision-making authority at the lowest level...leading to excessive approval controls and excessive paperwork.

The study recommended "decentralized school operations [and] encouragement of school-initiated innovation and improvement."

Throughout the recent requirements study for the new FMS,

school-based management was a basic consideration. FMS allows DOE to operate in a decentralized manner. It gives the individual schools the tools to administer their own financial affairs. We believe that true school-based management is not possible without FMS.

Auditor's recommendation: Give DOE the flexibility to move funds between appropriation categories.

DOE comments:

DOE concurs with this recommendation for more budget flexibility. However, rather than just moving monies between appropriation categories, for SBM schools, the legislature should consider greater flexibility such as lumpsum budgeting, moving from quarterly allotment to annual allotment, non-lapsing of year-end balances, and no manpower ceiling. This is the kind of flexibility the schools need so that they can tailor their programs to meet their unique needs, so they can readily adjust to changing conditions.

ACCOUNTABILITY THROUGH EDUCATIONAL ASSESSMENT

In the Legislative Auditor's Final Report on the Evaluation of the Administrative Flexibility Legislation Affecting the Department of Education and the University of Hawaii (1989), the Auditor writes, "We still adhere to the view that educational assessment is to be preferred over detailed operational control as a means of achieving accountability in the field of education" (p.11). The Department of Education strongly concurs with this view. With regard to the Department's "School Performance Report Card," and the recently proposed "Educational Assessment and Accountability Plan," however, there are a number of areas in need of elucidation. Specifically, the Report is unjustly reproachful in several key areas. Since a number of major conclusions hinge upon what may be considered a cursory examination of and an inaccurate depiction of the Department's efforts thus far, it is imperative that these deficiencies are pointed out, for the record.

There are, in particular, a number of deficiencies in the Auditor's review and coverage of educational assessment activities that currently exist within the Department of Education. More seriously, some of the major conclusions drawn in the Auditor's Report may be based on poorly communicated expectations of a "plan," coupled with a timetable that may be unreasonable.

The Department's response to the Legislative Auditor's previous recommendation was expeditiously executed in spite of the tight timeline left to submit a plan for educational assessment and accountability to the 1989 Legislature. The Department does welcome constructive criticism on the proposed plan, and agrees that educational assessment, as described and advocated by the Auditor, does show promise as an accountability vehicle. The purpose, nature and scope of an educational assessment and accountability system, however, should be responsive to the needs of Hawaii's public schools, communities, and policymakers. It should also be developed carefully and systematically with input from various stakeholder perspectives including parents, the business community, higher education, and public school administrators and teachers. It was with these concerns in mind that a concerted effort was made after notification in mid-1988 to address the most basic needs and issues in planning an educational assessment and accountability system, namely, to clarify the purpose, focus and scope of the system, and to develop first, a conceptual plan basic to any ensuing implementation plan(s). This systematic, if conservative, approach was considered the most prudent and practical means of ensuring any long-term success of this new mandate. As the highly regarded Report of the Office of Educational Research and Improvement (OERI) State Accountability Study Group (1988) poignantly warns:

"Accountability systems are powerful tools. In their current, rather primitive state, they produce some unintended effects that can constrain instruction and shape administrative policies in ways that many find inappropriate. (p.xi)

"The creation of sound State accountability systems is one of the most potent of the recent education reforms of the States. The systems will produce comprehensive information about schools for years to come. At their best, they will allow policymaker, educators, and the public to know how well their schools are now doing and how to help them do better in the future. As this report makes clear, this is no easy task. In many communities, it involves new definitions of who is going to be held accountable to whom for what. These are potentially fractious issues whose resolution lies in clarity of purpose, mutuality of trust, and evolution of consensus on the point that solid information and well wrought accountability mechanisms are essential for the success of schools." (p.vi)

Auditor's Recommendation: The Board of Education and the Department of Education should make every effort to implement as promptly as possible the School Performance Report Card system.

Department's Comments:

The Legislative Auditor's main criticism centers on the "continued delay" in implementing the School Performance Report Card. The Report Card has, in fact, been implemented on a trial run basis since October 1988. Results have not been publicized during this trial period, and a task force has recently convened to review the issues related to instituting the Report Card on a permanent basis. It is also important to point out that although concerns about the validity of the data to be used in the report card were acknowledged by the Auditor, it was strongly suggested that the Department accelerate implementation of the School Performance Report Card. It is imperative that validity issues be resolved prior to any permanent statewide implementation of the School Performance Report Card, or any other educational assessment instrument. Furthermore, the insistence on first implementing the School Performance Report Card independently of the remainder of assessment and accountability activities may well jeopardize the educational assessment and accountability effort in general.

High quality data that measure the central features of schooling are essential if the "Report Card" is to accurately and meaningfully inform parents, Department personnel, the Board of Education, and the general public. The Auditor's concerns over unnecessary delays is understandable. This distinction between necessary and unnecessary delays is a key point of contention. In light of the Auditor's expressed concern over the potentially far-reaching consequences of impending educational reform in Hawaii in the other areas of fiscal operation (Act 321, SLH 1986) and budget execution (Act 320, SLH 1986), it may be more consistent and comprehensible that the Auditor advocate exercising similar caution with respect to educational assessment and accountability, and to the School Performance Report Card in particular.

Auditor's Recommendation: The Department of Education should not implement in its present form the Educational Assessment and Accountability Plan submitted to it by its consultant. Instead, it should seek the development of a system that will more adequately serve the needs of educational assessment and accountability in Hawaii.

Department's Comments:

The intended use of the proposed Educational Assessment and Accountability Plan, as stated clearly in the Technical Report (see Exhibit A), was "...as a general plan for the development of a comprehensive educational assessment and accountability system. While it is general, it does have sufficient shape and substance so that it **can be used as the basis for the kind of detailed decision making that is necessary to develop an operational assessment system**" (Educational Assessment and Accountability Plan: Technical Report, 1988, p.1; emphasis added). The proposed plan was not intended nor represented as an implementation or operational plan for the proposed system. In short, the plan was designed to generally guide future system planning and development, and was a direct response to the Auditor's 1988 recommendations. First and foremost, any well-conceived educational assessment and accountability system requires systematic review, careful planning, and a clear conception of purpose, focus, scope and direction. In an area as complex and potentially controversial as educational accountability, there are no substitutes for conscientious thought and judicious implementation. The 1988 recommendation for a "plan" was issued without clear specification as to content and scope. The recommendation was written in the most general terms, and follow-up activities by the Department's personnel and the Northwest Regional Educational Laboratory staff via telephone and personal visit did not provide any additional clarifications or expectations about the form or content of the "plan."

Under these circumstances, the Department followed its own intuitions about the most appropriate way to conduct the study, including a good faith attempt to produce a carefully developed conceptual plan that included projected costs and timetables for immediate needs in consolidating present assessment information at the school level. The conceptual plan did include a preliminary sketch of certain crucial implementation mechanisms (e.g., data processing capabilities, minimal staffing requirements for improving and coordinating school by school and state level assessment and accountability reports). Even a detailed outline of minimal resources and estimated costs was submitted to the 1989 Legislature as noted in a separate paragraph at the end of the Technical Report. The Auditor was critical of the absence of such cost figures that were in fact available in detailed form, but summarized for the purpose of the conceptual plan.

It may be unreasonable to expect a detailed, operational plan in six months. Moreover, if sweeping changes are anticipated in educational administrative roles, functions, and responsibilities, it might be wise to "exercise caution" to ensure that the implementation plan is suitable and adaptable, for example, under decentralized school-community-based management.

In summary, we understand that the Department should be accountable and responsive to policymakers as well as consumer stakeholders. Unfortunately,

there does not exist a flawless educational assessment and accountability system that can be conveniently adopted:

"...no best design can be prescribed for all States... Each State must devise an accountability system that meets its own needs... States (also) must ensure that adequate capacity - computer systems, staff, training, and the like - is in place before implementing an expanded accountability system.

"The public may be displeased at times by the less than enthusiastic response educators might give to initial cries for accountability in education. Educator displeasure is often not about the principle that schools should be held accountable. Rather it stems from their legitimate concern about the accountability measures selected. These measures may focus education too narrowly, may cause schools to pay attention to rote learning only, may encourage teaching to test items, or may be inappropriately used"

(Report of the OERI State Accountability Study Group).

Further, the Department agrees, in concept, with the Auditor's identified need for an assessment and accountability system in education. As the Auditor has reiterated, educational assessment appears to be one such vehicle that shows promise as an accountability tool. It is the Department's strong contention, however, that an educational assessment and accountability system needs to balance oversight and improvement features.

"Policymakers can ensure that an accountability system provides useful information for improving schools, not just monitoring them, by carefully choosing the types of data that are collected and reported and by selecting an appropriate mix of rewards, sanctions, and technical assistance."

(Report of the OERI State Accountability Study Group).

The Auditor's proposed model and recommendations may tend to underscore accountability at the expense of an improvement component. Such an approach may not be in the best interest of the State. Moreover, it may be assuring predestined failure. The Department again emphasizes the importance of establishing a coherent, conceptual base which fosters clear purpose, direction, and focus. This has been the primary intention of the Department's initial efforts. Anticipated next steps include an implementation plan that adequately covers major operational elements. The Department is, in fact, working on such a plan that includes, first, the identification and review of potential quality indicators that would reflect the "health" of Hawaii public education; second, data specifications; and third, data collection, analysis and dissemination procedures. An attempt is being made to establish operational definitions for key indicators, examine the quality of existing or potential educational assessment and accountability measures, and set standards for evaluating the attainment of educational goals. By the same token, an attempt is being made to build in, wherever possible, sufficient flexibility in the educational assessment and accountability system implementation plan to accommodate future changes stemming from both local and national education reforms.

These are tall orders indeed. Devising an educational assessment and accountability program is an inherently complex, multidimensional endeavor. The tumult of impending reforms make it no less easier in prioritizing needs, and analyzing capacity and costs to meet those needs. In spite of the difficulties outlined, the Department remains committed to developing an educational assessment and accountability system that can be characterized as objective, equitable and vital to school improvement efforts.

Auditor's Recommendation: The University of Hawaii and the Department of Education should work together to determine areas of mutual interest and concern regarding educational assessment and to develop a cooperative and coordinated approach to meeting educational assessment needs in both higher and lower education.

Department's Comments:

The Department concurs.

