

Second Interim Report

**EVALUATION OF THE
ADMINISTRATIVE FLEXIBILITY LEGISLATION
AFFECTING THE DEPARTMENT OF EDUCATION
AND THE UNIVERSITY OF HAWAII
ACTS 320 and 321, SLH 1986**

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**

**Report No. 88-11
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FOREWORD

This is the second of three annual reports mandated by the administrative flexibility legislation (Acts 320 and 321, SLH 1986) which gave the University of Hawaii and the Department of Education broader autonomy with respect to the management of certain aspects of their budget execution and fiscal operations. As part of that legislation, the Office of the Legislative Auditor was directed to assess and evaluate the effect of the increased administrative flexibility, especially with regard to its impact on the quality of education delivered by the two educational agencies, and to report thereon to the 1987, 1988, and 1989 sessions of the Legislature. The ultimate objective of the evaluation effort is to provide guidance as to whether the legislation should be extended beyond its present expiration date of June 30, 1989.

This 1988 interim report focuses on implementation actions taken by both affected agencies in the area of budget execution and by the Department of Education with respect to vendor payments and payroll processing. It also discusses the national trend toward achieving educational accountability through educational assessment, and reviews the educational assessment efforts of Hawaii's two educational agencies during the period since our last report.

We wish to express our appreciation for the cooperation and assistance extended to us by top officials and other personnel of the Department of Education and the University of Hawaii during the conduct of this study.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

January 1988

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Chapter 1

INTRODUCTION AND BACKGROUND

This is the second of three annual reports requested by Acts 320 and 321, SLH 1986, which extended a degree of administrative flexibility to Hawaii's two educational agencies—the Department of Education (DOE) and the University of Hawaii (UH). Under these two measures, the Office of the Legislative Auditor was directed to assess and evaluate the impact of the flexibility legislation—especially its impact on the quality of education rendered by the two agencies—and report back to the Legislature.

Our first interim report was submitted in 1987. The third and final report will be submitted in 1989.

Objectives of the Evaluation

In line with legislative directives and as stated previously in our first interim report, the objectives of this evaluation are as follows:

1. To identify and assess the nature, extent, and effects of centralized controls on UH and DOE prior to actions to grant administrative flexibility to the two educational agencies.
2. To describe and assess the impact of the flexibility actions on the administrative procedures and operations of DOE and UH.
3. To the extent possible, assess the impact of the flexibility actions on the quality and effectiveness of the UH's and DOE's major educational program areas,

with particular emphasis on the impact on student education activities supported by the general fund.

4. To identify problems arising out of or associated with the flexibility actions and possible solutions to these problems.

5. To make an overall evaluation of the flexibility actions and to recommend whether such actions should be discontinued, kept in effect as is, or continued with modifications in the final report in 1989.

Scope of the Evaluation

Pursuant to statutory intent, the main focus of this second interim evaluation is upon the impact of the administrative flexibility granted under Acts 320 and 321, SLH 1986. In the case of UH, the scope of the project also extends to include the impact of administrative flexibility granted to the UH by executive action of Governor George R. Ariyoshi¹ and the personnel delegation and reorganization actions of the University of Hawaii Board of Regents (BOR)² prior to the passage of Acts 320 and 321. These earlier executive and BOR actions set the stage for the enactment of Acts 320 and 321.

In terms of time frame, the scope of this evaluation extends from September 1985, when the Governor first took major action to grant increased administrative flexibility to the UH, to three successive deadlines set forth in Acts 320 and 321. In the case of this second interim report, field work extended through November 1987.

Inasmuch as the Legislature wishes to ascertain the possible effects of administrative changes on the quality and effectiveness of educational programs, we are also concerned with the broad and complex issues relating to what is meant by

program quality and effectiveness in the field of education and how such concepts may actually be measured, if at all.

Organization of the Report

This report is divided into four chapters. Chapter 1 is this introduction. It also provides some background and a summary of the findings and recommendations made in the first interim report.³ Chapter 2 and Chapter 3 summarize and assess the substantive actions taken to implement Acts 320 and 321 by UH and DOE respectively, as of November 30, 1987. Chapter 4 discusses the question of determining and measuring program quality and effectiveness in the field of education. It also reviews the progress made in educational assessment by UH and DOE, both separately and cooperatively, taking into account inevitable interrelationships between lower and higher education programs in Hawaii.

Background

The events leading up to and other background surrounding the enactment of Acts 320 and 321 are broadly described in our first interim report⁴ and thus need not be repeated here. Suffice it at this point simply to indicate that this legislation represents the culmination of 20 years or more of concern and controversy arising out of efforts to meet and balance the aspirations of the educational agencies for greater autonomy on one hand and the need for some continued centralized control and accountability on the other hand.

However, as a starting point for this report, it is appropriate to summarize the results of our earlier efforts as reflected in the findings and recommendations set forth in our first interim report.⁵ In this regard, it is important to keep in mind that

the brief period allowed for the submission of the first report did not leave much time for actual implementation to occur or for much evaluation to be made.

On looking at the initial efforts of the UH and DOE to implement Acts 320 and 321, we found disparities in the implementation actions and activities between the two educational agencies. With the advantage of an earlier start, UH had been able to absorb fairly smoothly the transfer of all the functions covered under the two acts, except for the payroll function. The DOE, however, had only been able to accept the transfer of the budget execution and pre-auditing functions and some aspects of purchasing. Transfer of the vendor payments function to DOE was scheduled to take place on July 1, 1987. In the cases of both agencies, transfer of the payroll function had been delayed by (1) their desires to establish broader based personnel management and information systems of which payroll would be a part, and (2) their realizations that considerable additional resources would have to be requested to enable them to carry out the expanded payroll/personnel management functions.

In the face of these findings we recommended that the DOE proceed as expeditiously as possible to complete the transfer of all functions covered by Acts 320 and 321 by July 1, 1987, with the exception of the payroll function. We further recommended that UH and DOE submit plans and justifications to the 1987 Legislature for taking on the payroll function.

Turning to the matter of assessing the impact of the administrative flexibility legislation, we found that over the next two years the direct impact of the legislation on administrative procedures and business operations of the two educational agencies could probably be assessed by our office. However, we concluded that it will be impossible in a limited one- or two-year period to make a direct correlation between (1) the changes in administrative procedures and business

operations of the two agencies and (2) the quality of education being delivered by the two educational agencies. Nevertheless, it was deemed desirable to evaluate the quality of education in Hawaii on a long term basis through the application of educational assessment techniques like those being developed and utilized elsewhere throughout the United States.

In terms of their present educational assessment efforts, we found that at both UH and DOE, very preliminary attention and effort were being directed toward assessment and that little, if any, attention was being paid to national educational assessment trends, such as those which focus on outcomes of education to improve accountability in the field of education.

In view of the above findings, we recommended that both UH and DOE (1) continue to broaden their educational assessment plans, (2) review national educational assessment trends, and (3) consider interrelationships between higher and lower education in their approaches to educational assessment. We also recommended that the two educational agencies submit educational assessment plans to the 1988 Legislature focusing on the assessment of the respective programs of the two agencies and interrelationships between the programs of higher and lower education.*

Our subsequent follow-up on the implementation of the administrative flexibility legislation and the preparation of this second interim report have taken into account these earlier findings and recommendations.

*In this regard, the UH will be submitting a long-range assessment plan for consideration during the 1988 legislative session as a result of a mandate in House Concurrent Resolution No. 110, "Requesting the University of Hawaii to Develop and Implement an Educational Assessment Program," House of Representatives, Fourteenth Legislature, State of Hawaii, 1987.

Chapter 2

ASSESSMENT OF ADMINISTRATIVE FLEXIBILITY IMPLEMENTATION AT THE UNIVERSITY OF HAWAII

In this chapter, we look at the progress of implementation of administrative flexibility at the University of Hawaii (UH). As indicated in our first interim report, UH has moved fairly expeditiously in taking over various functions covered by Acts 320 and 321, SLH 1986.

Summary of Findings

With respect to the implementation of administrative flexibility at the University of Hawaii, we find as follows:

1. In view of the high additional costs involved, the University of Hawaii has decided not to assume responsibility for performing the payroll function.
2. A separate financial audit has not revealed any serious deficiencies within those fiscal operations which have been transferred to the University of Hawaii.
3. Results to date of the application of flexibility to the allotment process are less than satisfactory. Increased discretion for the University of Hawaii in this area has been accompanied by an increase, rather than a decrease, in the amount of paperwork involved. Moreover, the authority to approve transfers between programs remains unclear and subject to controversy. In addition, the system has failed to prevent, or even surface, at least one improper transfer between programs.
4. Reaction of the academic staff to increased administrative flexibility is generally quite favorable, but the change in itself still does not guarantee that serious problems will not arise.

No Transfer of Payroll Processing

In February 1987, UH's vice president for finance and operations reported at a legislative hearing on higher education that he was recommending against the implementation of a separate UH payroll system. This recommendation was explained and justified in a memorandum which he submitted to the UH president and in which he indicated that implementing a separate payroll system at the UH would: (1) not significantly reduce processing time; (2) be costly, with initial start-up costs amounting to at least \$800,000; (3) cause other high priority projects to be delayed; (4) demand the commitment of manpower and resources from several UH offices; and (5) require the separate development of a human resources system. He further indicated that if the State strengthened its efforts to update and modernize its existing payroll system under the Department of Accounting and General Services (DAGS) rather than developing a new and costly payroll system just for the UH, it would be to the benefit of all departments including the university.¹

In an interview on October 14, 1987, the president of the university confirmed that UH has no plans to take over the payroll function and intends to hold to its earlier decision not to assume responsibility for this activity.

Financial Audit of Fiscal Operations

The Office of the Legislative Auditor and the certified public accounting firm of Coopers and Lybrand have conducted a financial audit of UH, and a separate report on this audit has been submitted to the 1988 Legislature. It can be noted here that no serious deficiencies were revealed by the audit within the fiscal operations which were transferred to UH from DAGS in 1986 under the terms of Act 321, SLH 1986.

During this same period, UH separately contracted for a management audit of its financial operations and for a review of its personnel management function to be carried out by the certified public accounting firm of Peat Marwick Main & Co. Included in the audit were the cash management program, the procurement process, and the automated financial support systems, all of which were affected by Act 321, SLH 1986.² Among other things, this audit found that the university needed to make improvements along the following lines:

- . To revise and update its systemwide Administrative Procedures Manual and to assure that the language, changes in policies and procedures, and training of fiscal officers regarding such revisions would promote a thorough and clear understanding of the processes and requirements especially in the areas of cash management and procurement;
- . To establish internal controls to provide for the safeguarding and accountability of funds in such areas as cash receipt collection and imprest check storage;
- . To enhance its information systems planning and coordination at all levels of management; and
- . To strengthen the general controls environment of its central financial systems.

Among other things, the auditors recommended:

- . The establishment of a new office of vice president for information systems which would include both academic (UH Computing Center) and administrative and financial (Management Systems Office) computing on a systemwide basis.
- . The evaluation of the cost-benefits of central purchasing for commonly used items and determination of the feasibility of operating a central storage facility at UH-Manoa.

At the time of this study, UH was reviewing the audit's findings and recommendations.

Budget Execution: The Allotment Process

Budget execution involves expending appropriated funds for the program purposes authorized under the approved budget and establishing proper controls for monitoring such expenditures to make sure they comply with the approved budget. The controls also serve the additional purpose of providing a means for projecting and controlling cash flow into and out of the affected accounts. In Hawaii, the allotment system is the particular process through which budget execution is carried out.

Allotments are the formal paper instruments which translate legislative appropriations into authorizations for agencies to make expenditures. Under standard administrative practices within the Hawaii state government, these must be channeled from departments and other expending agencies through the Department of Budget and Finance (B&F) and oftentimes approved by the Governor before they become effective. For any one agency for a single fiscal year, the required allotments can be quite numerous and detailed. This is because allotments are made according to: (1) appropriated programs (UH alone has over 50 programs specified in the appropriations act), (2) fiscal year quarters within each program, and (3) cost element or classification of expenditures (e.g., personal services versus other operating expenses) within each quarter of each program.

Again, under standard administrative practice in Hawaii, once the original allotments are made, any changes (such as between or among programs, between quarters, and between cost elements) must also go through the centralized process of review and approval. Thus, besides being able to restrict funds at the beginning of each fiscal year by allotting less than is appropriated, executive authorities can further restrict the movement of funds by disallowing requested changes in

allotments or by requiring modifications in the changes proposed by requesting agencies. It is this type of detailed control which the educational agencies felt to be so burdensome and hence sought exemptions through the flexibility legislation.

Impact of Act 320 on the allotment process. Act 320, SLH 1986, on a three-year provisional basis, makes several modifications in the allotment procedure. First, it authorizes the Governor and B&F to establish overall allotment ceilings within the appropriations for the two educational agencies. Then, it provides for the automatic approval by B&F of the allotment requests (estimates) of UH and DOE so long as the sums of each do not exceed the applicable allotment ceilings established by the Governor.

Act 320 further restricts the power of B&F to reduce allotments during the course of the year. If reductions have to be made, they are to be accomplished through redeterminations of the allotment ceilings by the Governor. The two educational agencies are then expected to review their allotment estimates to fit within the redetermined ceilings. If they fail to do so within a timely period, B&F can impose the necessary reductions on the two agencies.

Act 320 further authorizes UH and DOE to transfer general fund appropriations "among programs with the same or similar objectives, among cost elements in a program, and between quarters, as applicable, with due regard for statutory requirements, changing conditions, the needs of the programs and the effective utilization of resources." However, the act further provides that all such transfers shall be reported quarterly to the Governor and annually to the Governor and Legislature in a form and manner prescribed by the Governor.

Act 320 places one other important limitation on the flexibility granted to UH and DOE in the area of budget execution. This is the provision that states that the

two agencies "shall not use current appropriations in any manner that shall result in the expansion of programs or the initiation of new programs which may require any future increase in the commitment of state resources, without the specific prior concurrence of the legislature and advice of the governor."

Considering the significance of the allotment system in terms of agency flexibility versus centralized accountability, we focused special attention on this area of administrative activity. The results of our examination are set forth below.

Implementation actions taken. During FY 1986-87, the paper flow involved in the allotment process for UH proceeded much the same as it had prior to the enactment of Act 320 except that B&F generally did not closely scrutinize or hold up requested allotment changes for most of the transfers within programs. Before Act 320, the average approval time for transfers was two weeks. Now the average turnaround time is about 24 hours. The transfers between or among programs are the exception. B&F continues to scrutinize this type of transfer based on budget provision Section 247 in the Appropriations Act of 1985 (Act 300) which provides that ". . . the governor is authorized to transfer funds between appropriations within an expending agency for operating purposes." With the required approval by the Governor, the process takes two weeks or longer.

The differing interpretations regarding the transfer of funds between or among programs within the same campus have not yet been resolved. Despite the disagreement on this issue, the educational agencies and B&F have participated in some negotiations to fulfill the provisions of Act 320. The results of these negotiations are embodied in a memorandum which the Governor sent to UH and DOE on June 19, 1987, entitled: "Guidelines and Policies for Reporting Transfers of General Fund Appropriations."³

Due to the timing of the issuance of this document, it had only minimal impact on FY 1986-87 activities. The two educational agencies were required to submit only an annual report for that year. However, from now on, UH and DOE must submit quarterly as well as annual reports on all transfers.

Evaluation of experience to date. Based on experience to date, it may be said that the results of flexibility are less than satisfactory insofar as the allotment process for UH is concerned. While UH may have increased to a degree its decision-making authority in this area, it has also had to assume a much heavier burden in terms of paperwork and detailed reporting. At the same time, the authority to approve allotment transfers between programs remains unclear. In addition, the system has failed to prevent, or even surface, at least one improper transfer between programs. These shortcomings are discussed below.

1. *Burdensome reporting requirements.* Prior to the passage of Act 320, allotment changes were processed on an "as needed" basis. With advance approval by B&F and sometimes even by the Governor being mandatory, no regular after-the-fact quarterly or annual reports were required. Under Act 320, however, quarterly and annual reports on all allotment transfers are now required. For most allotment transfers—especially for those within programs (i.e., those between quarters and between cost elements)—this appears to be a burdensome and unnecessary requirement. At the level of detail now required, it is even more burdensome.

In 1983, our office conducted a review and analysis of budgeting at UH and found them as follows:

"Justification requirements and procedures imposed by B&F for transfers of funds within programs are excessively detailed and burdensome. The requirement to secure B&F's approval for such transfers amounts to needless overcontrol by the State's central budget agency."⁴

Accordingly, we recommended that "[t]he university, following its own approved procedures, be allowed to effect transfers of funds within programs and without having to secure the approval of B&F."⁵

Looking at the situation as it existed in FY 1986-87 and projecting forward, it appears that a great deal of paperwork is continuing to be generated with minimal positive effect insofar as allotment transfers within programs are concerned.

This is reflected in the transfers between quarters and between cost elements for the programs at UH-Manoa for FY 1986-87. For transfers between quarters, there was a total of 12 transfers during the year involving a total amount of \$4,603,260, or 3.4 percent of UH-Manoa's total allotment for the year of \$131.8 million.⁶ Seven transfers between cost elements (i.e. payroll and operating expenses) were made during this same period. The total amount for this type of transfer was \$679,402, or 0.5 percent of the campus's total annual allotment.⁷ In neither case did the transfers have any effect on the total funds available to the campus for that year.

Although UH can now make these types of transfers without having to obtain prior approval from B&F, an explanation and justification for transfers are still required for each transfer at the time of processing. Thus, there is no reduction in the amount of paperwork required, and, in fact, the paperwork increases due to the quarterly and annual report requirements under Act 320. To compound matters, under the Governor's June 19, 1987 memorandum, reporting is supposed to go down to an additional level of detail--that is, from Level IV (instruction, organized research, public service, etc., by campus) to Level V (individual college, research unit, etc.). This requirement greatly expands the paperwork burden of UH (UH Manoa alone has more than 100 Level V programs) and to a very large extent

negates the advantages attributed to the flexibility legislation. Moreover, it should be Level IV because that is the level at which legislative appropriations are made and are to be controlled.

In view of the foregoing and in line with our previous findings and recommendations, it is our position that UH should be given fairly broad discretion to make internal transfers *within* programs and should be relieved of the burdensome amount of detail now required to effectuate such transfers.

2. *Unclear authority to approve transfers between programs.* As previously indicated, Act 320 differentiates between the internal type allotment transfers discussed above and allotment transfers *between* programs. The two educational agencies are given the flexibility to effectuate transfers only between programs "with the same or similar objectives." Transfers between programs with different or dissimilar objectives would therefore appear to continue to require centralized review and approval.

However, Act 320 does not define what is meant by "same or similar objectives." During the course of this study, we found serious differences of opinion and interpretation between UH and B&F regarding what is meant by this term and what types of transfers between programs require centralized review and approval. Despite repeated discussions and negotiations between UH and B&F on this subject, the issue still had not been satisfactorily resolved at the time we completed our field work.

On the one hand, B&F takes the position that in nearly all instances the programs of instruction, organized research, public service, etc. are different and dissimilar in purpose. Hence, unless exempted, transfers between these programs on the same campus will require centralized review and approval. In addition to relying

upon Act 320 to support this position, B&F also cites provisions in the general appropriations acts which give the governor authority to approve transfers (Section 247 of Act 300, SLH 1985, and Section 309 of Act 216, SLH 1987). However, transfers between the same programs on different campuses (e.g., between instruction at UH-Manoa and instruction at Kapiolani Community College) may be made by UH without such centralized review and approval as provided under Act 320.

On the other hand, UH is of the opinion that all the programs on a single campus "are integral components that serve a same . . . objective in providing the total educational opportunity and experience to a well-defined client group." As a consequence, it feels it should be able to transfer funds between programs on a single campus without having to obtain prior centralized approval.

From the perspective of managing the various individual campuses in the UH system, it is fairly easy to understand the university's position on this matter. If the heads of the respective campus units (UH-Manoa, UH-Hilo/West Oahu College, and the Community College System) are to manage their units effectively and to be held accountable therefor, then it is reasonable for them to want to be able to exercise considerable discretion in the use of the resources entrusted to them without being second-guessed by the state budget agency.

In terms of policy direction and program control, the position of B&F is also quite understandable. In the first place, the movement of funds between the various campuses has tended to be relatively small and hence of no great consequence. Second, shifts of funds among the areas of instruction, organized research, public service, etc., are much more likely to be of interest and concern than shifts from one area of instruction to another area of instruction or from one area of public service to another area of public service.

Practically speaking, however, much of the problem and disagreement probably stems from the great disparity that exists between the Manoa campus and the other units of the UH system. With UH-Manoa accounting for well over half of the funds appropriated to the university, no type of control is likely to be very meaningful unless it can be exercised over the movement of funds within UH-Manoa. Whereas the individual community colleges and UH-Hilo are each small enough to be readily comprehensible and therefore controllable, UH-Manoa is both extremely large and extremely complex and thus much more of a challenge in terms of being understood and controlled.

For FY 1986-87, most of the transfers between programs required approval by the Governor.⁸ In terms of significance, we summarize the transfers among programs of the campus units. For the UH-Manoa campus, this involved 10 transfers-in between programs of \$1,491,743 and 12 transfers-out between programs of \$2,075,998. For the Community College System, there were five transfers-in between programs totaling \$169,300 and two transfers out amounting to \$13,188; and for UH-Hilo/West Oahu College, there were three transfers-in between programs totaling \$67,760 and one transfer-out of \$34,080.

To eliminate conflict between UH and B&F, this issue between the two of them should be resolved, and should be resolved amicably if at all possible. The internal disparity situation within the university system mentioned above suggests that a differential approach may be the best way of dealing with this issue. In short, perhaps it would be much better to handle UH-Manoa in a manner quite separate from that for the other units within the UH system.

Thus, for the units outside of UH-Manoa, UH's position on this issue might well be adopted by both the UH and B&F. If it is felt that such discretionary

authority should still be monitored, then reporting could be required for any internal transfers between programs which exceed some fixed percentage of the funds allotted to the affected programs.

As for UH-Manoa, due to its large size and complexity, there are grounds for continuing to require executive review and approval for transfers among programs located at this campus. The main effect of such transfers is the altering of the funding base for the affected programs. Hence, UH-Manoa should be required to provide justification for the transfers including how the transfer of funds impact each of the affected programs and the funding levels during the next budget period. Again, discretion might be allowed up to some cumulative limit for each program, but approval required for any transfers above such a limit.

Legislative concern about transfers. The Legislature is interested in and concerned about the movement of funds within the university and the shifting of resources from one intended purpose to another purpose. Indeed, the inclusion in Act 320 of the present restriction on transfers between programs is the result of legislative concern about past performance of the university such that the following statement was included in the standing committee report of the bill that is now Act 320, SLH 1986:

Moreover, this bill contains significant limitations on the transfer authority which will ensure the following of legislative budgetary directions. . . . And while increased flexibility for the university is a worthy goal, your Committee is concerned that the university may not be capable of handling its own affairs based upon past performance. However, in view of the university's strategic plan, the appointment of a new president, and the administrative reorganization, your Committee is willing to give the university more responsibility and the opportunity to demonstrate its capabilities.⁹

Thus, during this provisional three-year period under the flexibility legislation, UH must demonstrate that it can be fully responsible for budget execution. In the

meantime, it should expect that some sort of controls or restrictions will continue to be placed on its discretionary authority to transfer funds between programs, especially at UH-Manoa.

Failure to transfer funds properly. Based on the findings of a separate study of electrical energy consumption and costs at UH conducted by our office for the Legislature, we found that almost \$300,000 out of a surplus of over \$1.4 million in funds appropriated for electricity under the UH-Manoa institutional support program for FY 1986-87 had been used to pay the electricity component of lease rental expenses normally funded out of the budget for School of Medicine which falls under the UH-Manoa instruction program. By thus paying for this electricity component, funds allotted to the School of Medicine for this purpose were freed to cover shortfalls in its funds for faculty salaries and other expenses. Further details on this matter are covered in our separate interim report on electricity consumption and costs at the university.¹⁰

A transfer of funds from the institutional support program to the instruction program would have been the proper procedure to follow to effectuate this change. However, in this instance, no transfer was processed or reported. Instead, UH simply transferred the expenses from one program to the other. The university took this approach because the use of \$300,000 from the electricity surplus to fund salary shortfalls and other expenses would have been a misappropriation of funds under a special proviso of the Supplemental Appropriations Act of 1986 (Act 345) which specified that the amounts appropriated for electrical energy under the institutional support program "shall be used *only* for electricity costs" (emphasis added).

Even though UH admits that the School of Medicine had the funds to cover its lease rental electricity expenses and that the real purpose of the switch in expenses

was to free funds under the instruction program to cover other deficits in the instructional account, it has taken the position that such lease expenses can be classified as institutional support costs just as easily as instruction costs; hence, it is only a matter of cost classification.

However, we do not find such an explanation adequate or acceptable, especially in view of the fact that UH did not bother to so reclassify other electricity expenses budgeted outside of the institutional support program. Such behavior, if repeated, may well jeopardize the granting of increased administrative flexibility to UH and perpetuate the demand that shifts in the uses of funds be subject to centralized review and approval.

General Reaction to the Flexibility Legislation

As the result of various legislative requests and as previously noted, the Office of the Legislative Auditor was involved in four separate but interrelated studies of administrative operations at UH during 1987. Involved in these studies were examinations of: (1) the impact of the flexibility legislation, (2) the effectiveness of the 1986 administrative reorganization, (3) the circumstances surrounding repeated shortfalls in the funding for faculty salaries, and (4) reasons for recurring wide divergences between appropriated amounts and actual expenditures for electrical energy.

In carrying out these various studies, we had occasion to review many different activities and to come into contact with a fairly wide range of personnel at UH with views on the subject of administrative flexibility. Based on this experience, we find that in general the response to the flexibility legislation has been quite positive on the part of administrators, faculty, and support staff at UH.

On the whole, morale seems to be improving, and there is broad support for the view that decision-making and action are occurring on a more timely basis.

At the same time, it should be recognized that the changes which have been occurring are the result of a combination of factors and cannot be attributed solely to the advent of increased administrative flexibility. As pointed out in our initial report on administrative flexibility, changes resulting from administrative flexibility have gone hand in hand with and are closely interrelated to changes associated with the 1986 administrative reorganization of UH and with concurrent actions by the Board of Regents and the president to delegate greater administrative authority down the line throughout the UH administrative hierarchy. Due to this overlapping of events, it is impossible to isolate and identify specifically the effects of any one of them.

Moreover, pockets of discontent and concern still exist with regard to the effects, or perceived effects, of administrative flexibility. Some academic administrators decry the added work which has been imposed upon them and complain of the lack of adequate support staff to carry out the increased workload. Some of them are unhappy about the length of time it still takes to get some things done, such as making air conditioning repairs. Some feel that in addition to focusing upon leaking roofs and peeling paint on building exteriors, more attention needs to be given to the condition and furnishings of classrooms and hallways. Some of them also feel greatly inconvenienced by chronic delays in the making of program allocations.

While there may be merit to some or all of these complaints, they should be looked at in perspective. First, they represent a minority viewpoint. As already indicated, overall support for administrative flexibility at UH is quite strong.

Second, they may also reflect a misconception or false expectation concerning the efficacy of administrative flexibility—that is, a belief that it would be a cure-all for administrative procedural problems at UH.

Administrative flexibility is not intended—and cannot be expected—to be a panacea for all problems of administrative management and procedures at UH. When administrative flexibility legislation was passed, it was not in the form of a guaranteed remedy for all then existing administrative ills. Rather, it was seen as a means of facilitating internal improvements by removing outside interference which previously had hindered the flow of internal administrative operations.

For example, some—perhaps even much—of the time required to process a particular administrative transaction prior to the enactment of the administrative flexibility legislation may have been due to factors within UH itself; the need also to process the matter through one or more external agencies may simply have added to the total time required. Thus, removal of the outside requirements would still leave the internal requirements left untouched. Even with a reduction in total time required, the remaining time necessary for internal processing within UH might still be annoyingly long.

Not to be overlooked either is the importance of the human factor in administrative processing. The best designed systems can be significantly and adversely affected by inadequacies in attitudes and aptitudes on the part of those utilizing them. Similarly, highly qualified and motivated employees can overcome many of the weaknesses found in administrative procedures.

Recommendations

With regard to the implementation of administrative flexibility at the University of Hawaii, we recommend as follows:

1. *The decision of the University of Hawaii not to assume responsibility for carrying out the payroll function for its employees should be accepted by the affected executive and legislative authorities until such time as an adequate case can be made to transfer this function to the university.*

2. *The University of Hawaii and Department of Budget and Finance should jointly review the process of allotting funds to the university with the objective of simplifying and streamlining them as much as possible while maintaining an acceptable level of accountability. To this end, the following guidelines are suggested:*

- . To the fullest extent possible, the university should be given the freedom to make transfers within programs—that is, between quarters and between cost elements. At the same time, the university should be prepared, when requested, to account for and explain such transfers.*
- . With regard to transfers between programs, central review and approval should be confined to those of major significance—that is, those exceeding some dollar or percentage limitation or likely to have a major impact on the affected programs. The smaller campuses, for example, should have the freedom to make minor adjustments among their various programs without having to go through an elaborate review and approval process. Even at the Manoa campus, minor adjustments should be allowed without requiring centralized review. In all cases, however, the affected units should be able to explain and justify all transfers between programs when requested to do so.*
- . Ideally, it would be desirable for the university to be able to effectuate all transfers between programs on its own without the necessity for*

centralized review and approval and subject only to after-the-fact explanation and justification upon request. However, this will require a degree of confidence in the university by executive and legislative authorities which has not yet been achieved.

3. The University of Hawaii should pay careful attention to make sure that all transfers actually made between programs are effectuated through the formal allotment transfer process rather than through other means which disguise the transfers. Failure to do so is one of the surest ways to undermine confidence in the university's ability to fulfill its responsibilities under administrative flexibility.

4. The University of Hawaii should do all it can to make sure that all its personnel fully understand the limitations as well as the advantages of administrative flexibility. There is a danger that the concept can be oversold or misunderstood with the result that personnel will become disappointed and disillusioned because it does not live up to their expectations of it.

Chapter 3

ASSESSMENT OF ADMINISTRATIVE FLEXIBILITY IMPLEMENTATION AT THE DEPARTMENT OF EDUCATION

In our first interim report, we noted that at the Department of Education (DOE), the implementation of administrative flexibility had been proceeding on an incremental basis. Specifically, we reported that transfers of authority and responsibility to DOE had been accomplished for the functions of budget execution, preauditing, and certain purchasing activities. In this chapter, we focus on subsequent actions taken by DOE with respect to the implementation of administrative flexibility in the areas of vendor payments and payroll processing. We also review the situation at DOE with respect to allotment transfers.

Summary of Findings

With respect to the implementation of administrative flexibility at the Department of Education, we find as follows:

1. The vendor payment function was transferred to the Department of Education from the Department of Accounting and General Services on July 1, 1987. Although a conclusive assessment of the effects of this transfer is premature at this time, preliminary data from DOE suggests promising results.

2. The decision of the Department of Education to develop a comprehensive financial management system has resulted in a delay of the transfer of the payroll function from the Department of Accounting and General Services.

3. Unlike the University of Hawaii, allotment transfers do not appear to present any real problem for the Department of Education. This seems to be due

mainly to the difference between the two education agencies in their program budget structures; the Department of Education has a much simpler structure.

Transfer of the Vendor Payment Function

In our previous report, we noted that the transfer of the vendor payment function, which originally had been scheduled to take place on January 1, 1987, had been delayed due to unforeseen technical problems in the system which was developed with the assistance of Grant Thornton International. With the resolution of these problems, the authority and responsibility for vendor payments were transferred from the Department of Accounting and General Services (DAGS) to DOE, effective July 1, 1987.

Preliminary data on the effects of the implementation of administrative flexibility. As the DOE's vendor payment system (VPS) has been operational only since July 1, 1987, a conclusive assessment of the effects of the transfer action was felt to be premature at this time. However, preliminary data received from DOE suggests that DOE may stand to reap significant benefits as a result of administrative flexibility. Thus far, the following areas appear promising:

1. *Decrease in processing time.* According to DOE, the time for processing vendor invoices for payment has been reduced from six weeks to two weeks or less. In addition, a sample taken by DOE to compare the processing time of summary warrant vouchers under the DAGS Financial Accounting and Management System, or "FAMIS," with that under its VPS shows a decrease in average time from 10.6 days to 4.6 days. As a result, DOE's Administrative Services Branch notes that schools have been receiving less complaints from vendors about tardy payments.

2. *Simplified priority payroll payment process.* Priority payroll payment is utilized by DOE when it has been determined that an employee is not paid due to a payroll error. Prior to the transfer of the vendor payment function, the process was such that payment frequently could not be made in a timely manner even after it had been determined that an employee should be paid as soon as possible. At present, DOE has established an account to accelerate priority payroll payments out of "B" monies. Under the new VPS, DOE cuts its own checks for all "B" expenditures, so VPS is also used to process priority payroll payments. Thus, the employee is able to be paid temporarily until the employee is carried on the regular DOE payroll. The DOE maintains that under the new system, it is able to cut a check in two days and thus is able to pay people more quickly than if DAGS were involved.

3. *Facility in approval of payment to vendors.* With the transfer of the vendor payment function to DOE, the schools have been given the authority to certify the availability of appropriate funds and pay overages if funds are available. Previously, DAGS is said to have been overly restrictive in approving such expenditures. For example, if the amount billed by the vendor had been as little as one cent over that specified in the purchase order, DOE had to cut a new purchase order even if funds were available to cover the overage.

Delay in the Transfer of the Payroll Function

The DOE had originally intended to have the payroll function transferred on January 1, 1988. However, the department has decided to proceed with plans to develop a more comprehensive financial management system before taking over the payroll function. Accordingly, the payroll function will not be transferred as

scheduled, but instead will remain with DAGS until further notice. It should be noted, however, that the DOE is continuing with its efforts in this area, irrespective of the decision of the University of Hawaii (UH) to abandon its plans to implement a separate UH payroll system.

In 1987, a DOE study group was formed to develop a proposal for a comprehensive system. The study group, with the assistance of consultants from IBM, interviewed personnel at all levels within the DOE to solicit their input as to system requirements. In mid-January 1988, the recommendations of the study group were compiled and presented to the Superintendent of Education for any further action.

The report of the study team recommends the adoption of a 6-point financial management improvement plan. Specifically, this plan calls for: (1) the development of a new on-line integrated financial management computer system; (2) the establishment and implementation of a comprehensive financial management training program; (3) additional staffing and other resources for school offices; (4) the review and streamlining of financial policies, procedures, forms, deadlines, and reports; (5) the definition of roles and responsibilities of schools, offices, and staff; and (6) the development of a standardized and comprehensive coding structure. The proposed plan was unanimously accepted by the Board of Education on January 21, 1988.

The on-line financial management computer system being proposed will integrate budget preparation, budget allocations, expenditure plans, payroll processing and accounting, accounting for non-appropriated funds, purchasing requisitions, purchase orders, status follow up, posting of financial ledgers, receipt of purchases, vendor payments, inventory update, and maintenance of account

balances. Implementation, which involves the definition, selection, purchase, customization, and installation of a system, will occur over a 5-year period in two phases. The first phase will encompass the integrated automation of the budget, expenditure plans, accounting, purchasing, disbursements, and inventory. Activities in this phase begin in January 1988 and are scheduled for completion in July 1990. The second phase which will deal with payroll is projected to begin in January 1991 and be completed by January 1993.

Substantial resources will be required to accomplish the transfer of the payroll system within the broader context which DOE is exploring. With the total system projected to cost in the neighborhood of \$9 million, DOE's initial request during this supplemental year will be \$1,011,000. Thus, as indicated in our first report, it would be prudent for the Legislature to review plans in this area and to be assured that the contemplated additional expenditures are fully justified. At a minimum, the Legislature should be fully informed concerning the expected costs and benefits of the proposed changes in operations and the extent to which various alternatives have been weighed.

No Apparent Problems Affecting Allotment Transfers

In Chapter 2, considerable attention is given to problems which have arisen between UH and the Department of Budget and Finance (B&F) concerning the processing and approval of transfers of allotments between and among different budget programs under the university. Although DOE expends a much larger amount of funds than UH, there does not appear to be any real problems with respect to allotment transfers as far as DOE is concerned. Neither DOE nor B&F has voiced any complaints on this subject with regard to the expenditure of funds by DOE,

except that at the staff level, B&F desires more detailed explanation from DOE regarding its transfers.

This difference in administrative flexibility implementation between the two education agencies can be attributed in great part to differences in program budget structures between DOE and UH. The DOE program budget structure is much simpler than that of UH. Whereas UH has some 50 separate program appropriations, DOE has less than 20. Moreover, approximately half of DOE's general fund expenditures (equalling almost the total amount expended by UH) falls under the single program of regular instruction. As a result, DOE generally has much less need than UH to resort to allotment transfers between and among programs to meet its expenditure requirements.

Recommendations

With regard to the implementation of administrative flexibility in the Department of Education, we recommend as follows:

- 1. In light of the decision of the University of Hawaii not to take over the payroll function, the Department of Education should exercise due caution in any efforts it exerts to assume responsibility for payroll processing. It should carefully weigh the available alternatives and make sure that any additional costs can be adequately justified by the added benefits to be derived.*

- 2. The Legislature during its 1988 session should request the Department of Education to submit for review the department's plan for taking over the payroll function within the context of the larger plan to revamp the department's overall financial management system. Lawmakers should be assured that this plan sets forth the objectives, scope, description, resource requirements, implementation*

timetable, expected benefits, and assessment of alternatives for any new system being contemplated.

Chapter 4

ACCOUNTABILITY THROUGH EDUCATIONAL ASSESSMENT

In our first interim report on evaluation of the legislation granting increased administrative flexibility to the Department of Education (DOE) and the University of Hawaii (UH), we indicated that it would be impossible to establish any direct correlations between changes in the administrative procedures and business operations of the two educational agencies and the quality of the educational services which they were delivering—particularly within the brief period of one or two years. However, we also pointed out that, nationally, increased attention is being given to the use of educational assessment as a means of achieving greater accountability on the part of educational agencies. Accordingly, we suggested that both UH and DOE should be encouraged to expand and accelerate the very preliminary attention and efforts that they have been devoting to educational assessment up to now.

Since then, we have been taking a closer look at what others are doing in the area of educational assessment while also monitoring the activities of DOE and UH in this field. In this chapter, we summarize the results of these efforts.

Summary of Findings

We find as follows regarding educational assessment:

1. The need for and actual use of educational assessment are being given increased attention and support throughout the country. Indeed, it is virtually

impossible to avoid some form of educational assessment from taking place with regard to any particular educational agency or institution.

2. The increased emphasis on educational assessment is accompanied by considerable diversity in the nature, form, and scope of assessment actually performed. While there is no set pattern or approach to educational assessment which is universally applicable, nevertheless Hawaii can learn from the efforts and experience of others.

3. For UH and DOE, educational assessment is still in its formative stages. The DOE has just recently instituted a "School Performance Report Card" system. The UH is still in the process of organizing an overall approach to educational assessment. Virtually nothing has been done in terms of coordinating the assessment efforts of the two educational agencies.

Increasingly Widespread Emphasis on Educational Assessment

As noted in our first interim report on administrative flexibility for Hawaii's educational agencies, educational reform has become a matter of national concern in the United States. Moreover, it is a matter of concern not only to educators, but also to legislators, government executives, and the community at large. However, with this increased involvement in educational affairs comes the danger of too many different parties trying to set policy and give direction on educational matters. Conflicting and duplicative control can be just as administratively enervating as rigid, out-of-date, out-of-touch management.

Educational assessment has come to the forefront, therefore, as a means of achieving accountability in the field of education without having outsiders constantly second-guessing educators or becoming deeply involved in day-to-day

educational operations. Under this approach, educational agencies are judged on their performance or the results they produce and held accountable therefor instead of being given precise instructions as to how they should function or of being turned completely loose to do as they please.

Besides enhancing relationships between educational agencies and outside parties, educational assessment provides the added advantage of helping to clarify and ease the role of executive boards which head up so many educational agencies. There is often a temptation for such boards to become deeply involved in the administrative details of the agencies for which they are responsible. A properly established system of educational assessment, however, can enable such boards to draw back from their entanglement in administrative minutiae and to concentrate on the performance of the educational managers who they have charged to achieve the objectives of their agencies. This, in turn, can enhance their ability to focus on their roles as policy bodies.

Such an approach is not simple or easy, however. It requires, among other things, the establishment of clear and agreed upon objectives, the development of suitable measures for evaluating the attainment of those objectives, and the actual implementation of a system for conducting and following up on the evaluations made. On the other hand, the possible advantages offered by such an approach make it worthwhile to face the difficulties, obstacles, and costs involved in putting into operation a workable system of educational assessment.

Examples of assessment activities. As pointed out in our first interim report, the National Governors' Association has been in the forefront of those who have recognized the value and importance of educational assessment and who have been pushing for its application at the state and local levels. However, the state

governors are not alone with regard to their interest in and support for educational assessment. For example, the State Higher Education Executive Officers (SHEEO) established a task force to respond to and enlarge upon the findings on college quality included in the National Governors' Association's 1986 report on education. From this task force has come a SHEEO statement of policy which commends the leadership provided by the nation's governors in this area and endorses and elaborates upon the recommendations contained in the governors' report.

In like manner, the Council of Chief State School Officers adopted a position paper and action plan on education evaluation and assessment in 1984 and has established a State Education Assessment Center (SEAC) as the first step toward implementation of the recommendations included in the action plan. The overall objective of SEAC is to help states collect and report more comprehensive, timely, and comparable information on education. The center has embarked upon an ambitious program to fulfill this mission.

Other state supported education organizations are also devoting considerable attention to the subject of educational assessment. Prominent among these are the Education Commission of the States and the Southern Regional Education Board. The former conducted a 50-state survey of educational assessment activities in early 1987 and reports that whereas only a few states had formal initiatives labeled "assessment" several years ago, now two-thirds do. The latter has issued a number of reports pertaining to educational assessment. One of the most recent is a June 1987 report which calls upon affected state officials to establish more uniform programs to measure how much students are learning and to set higher academic standards at community colleges.

As indicated by the foregoing, a great deal of activity relating to educational assessment is taking place at the state level throughout the country. Through correspondence and on-site visits, we have taken a close look at these activities in a number of states. Among those states which we examined, we found that most of the initial attention has been focused on assessment of higher education. This appears to derive from the fact that states generally have been much more directly involved in the provision of services at the higher education level than at the lower education level. Except for Hawaii, primary and secondary education are administered through local school districts.

Even so, states are now beginning to extend their involvement in educational assessment to lower education. South Carolina has probably gone the farthest in this direction. The South Carolina Department of Education has established a Division of Public Accountability and has developed an elaborate system for evaluating and accrediting schools and school districts throughout the state. Indiana provides an example of a state which is currently considering some form of state certification or accreditation of primary and secondary schools.

With respect to educational assessment at the level of higher education, New Jersey probably has the most comprehensive statewide program of evaluation. Since 1977, it has been administering a basic skills placement test which is taken by entering students at all public colleges and some of the private colleges in the state. Just recently, the New Jersey State Board of Higher Education has approved for implementation a broad-gauged college outcome evaluation program which calls for the assessment of public colleges and universities according to various categories of information, ranging from a student's post-graduation success to faculty activities to an institution's impact on its community.

In all the states we contacted, we found that considerable attention and effort are being devoted to the evaluation of higher education activities.

With all this focus on educational assessment, however, we found that there is still quite limited coordination between state evaluation efforts at the higher and lower levels of education. Again, this seems to be a function of the disparate roles of most states with regard to the two levels of education. Whereas higher education is generally viewed as a state responsibility, in most states lower education is considered to be primarily a local responsibility—especially when it comes to setting educational policy. Thus, most state departments of education not only are organizationally separated from higher educational agencies within their own states (which in itself complicates coordination), but also are restricted in the amount of control which they can exert over local school districts and local schools (which further constrains their ability to cooperate and coordinate with higher education agencies in carrying out educational assessment).

This does not mean, however, that there is no crossover between assessment at the higher and lower levels of education. In states like Indiana and Ohio, for example, state higher education agencies are deeply involved in assessment activities relating to secondary students, but it is through direct contact with the students and with local school agencies rather than through the state education agency.

It should be recognized, too, that educational assessment in this country is not confined to that which is officially conducted by state governments. The federal government through the U. S. Department of Education is showing increased interest in this subject. In addition to calling for the measurement of the quality of education, the present Secretary of Education has also been decrying the rapidly

increasing costs of higher education and calling for examination of the factors underlying this trend.

There is also the extensive amount of evaluation and assessment that is performed within the private sector, some of which is quite formal and organized and a great deal of which is informal and unorganized. Falling in the first category are the studies and reports of various organizations and special commissions concerned with the national situation affecting education in this country as exemplified by *High School: A Report on Secondary Education in America* and *College: The Undergraduate Experience in America*, both issued by the Carnegie Foundation for the Advancement of Teaching, and *Integrity in the College Curriculum: A Report to the Academic Community*, which sets forth the findings and recommendations of the Project on Redefining the Meaning and Purpose of Baccalaureate Degrees of the Association of American Colleges. Included also are individual commentaries on the state of American education, such as Allan Bloom's *The Closing of the American Mind: How Higher Education Has Failed Democracy and Impoverished the Souls of Today's Students*. An example of such activity at the state level is provided by PACE (Policy Analysis for California Education), which is an independent, educational policy research center concerned with assessing education and educational developments in California.

The more informal category of assessment covers a wide range of activities. When parents are deciding to send their children to public, private, or parochial schools, they are in effect assessing these alternative educational services. The same holds true when it comes to choosing colleges on the part of students and their parents. Conversely, those institutions of higher education which are selective in their admissions often end up assessing secondary schools and school districts as well

as individual students. Assessments of baccalaureate programs occur, in turn, when graduate and professional schools make their admission determinations.

Employers, with varying degrees of consciousness, are also involved in educational assessment. One way is in their recruitment and hiring practices, both at the secondary and college levels. Where schooling is received is often a key factor in employment decisions. Another way in which employers become involved in educational assessment is through their own internal educational and training programs. Frequently employers will set up their own programs after determining that satisfactory services cannot be obtained through regular educational institutions.

Thus, whether it is liked or not, educational assessment is becoming unavoidable in one form or another for almost all educational institutions and agencies. This is amply demonstrated by recent events relating to elementary and secondary education in Hawaii. With regard to Hawaii's public schools, the Hawaii Chapter of the National Military Family Association has come out with a report expressing acute dissatisfaction with the quality of public education here while the local business community, with the concurrence of the State Board of Education, has just commissioned an independent study of Hawaii's public school system.

Great Diversity in the Nature, Form, and Scope of Educational Assessment

From the foregoing discussion, it can be seen that educational assessment not only is widespread throughout the nation at both the lower and higher levels of education but is also quite diverse in terms of who does the evaluating and in terms of the nature, form, and scope of the assessment. Educational assessment ranges all

the way from the informal, limited, episodic, and impressionistic to the formal, comprehensive, long term, highly technical, and carefully documented; from the mandated to the voluntary; and from the rigidly uniform to the very individualistic.

This means, in effect, that there are no magic formulas or single solutions insofar as educational assessment is concerned. No one has yet come up with a set pattern or approach which is universally applicable. Nevertheless, there is broad acceptance of the concept of educational assessment, and Hawaii can learn much from the efforts and experience of others.

Tailoring assessment efforts to fit particular conditions. It appears that any state's actions to undertake educational assessment should be tailored to meet the particular conditions in that state. For example, states vary widely in the amount of control and direction exercised over educational agencies and institutions. As previously noted, Hawaii is the only state with a single, centrally administered public school system. Hawaii also has a highly centralized system of public higher education whereas in many states there are numerous public institutions of higher education with a strong tradition of separation and independence. On the other hand, private education at the primary and secondary levels plays a much more prominent role in Hawaii than in most other states while private higher education here is relatively new and small compared to some states (particularly those on the East Coast) where private colleges and universities have well established reputations and loom large on the educational horizon. These variations can make a big difference regarding the compulsory versus voluntary nature of state educational assessment efforts.

There are also other types of variations. For instance, in one state, there has been considerable concern over the relatively low proportion of high school students

who go on to college. For a long time this was attributed to cultural and traditional factors which were believed to influence adversely the attitudes of that state's citizenry toward the value of higher education. However, a state-focused public opinion survey indicated a college education was as highly esteemed within the state as elsewhere in the country, but that real and perceived financial barriers were discouraging many students from considering going to college. This revelation enabled the state to start concentrating on ways to overcome what seems to be the real obstacle keeping students from going to college.

In contrast to this situation was another state where a high proportion of high school students were going to college, but where half or more of them were going to colleges outside of the state. This might have been accepted as desirable because it lessened the burden on the state to provide higher education services, but it was viewed as a serious "brain drain" problem—not only were the state's institutions of higher education being deprived of many of the state's best students but much of this talent was being permanently lost to the state's polity and economy. Accordingly, that state has begun to focus on ways to encourage more of its citizens to go to the state's own colleges and universities.

With its highly centralized educational agencies, it appears almost inevitable that Hawaii's educational assessment efforts will also have to be fairly centralized and across the board in coverage. However, the above examples also suggest that it would be desirable to avoid focusing too narrowly on just the agencies themselves and to broaden the scope of such efforts to include education related matters of general, statewide concern.

Multiple versus single measures. In our initial report on administrative flexibility, we indicated that there are many choices which can be made concerning

measures to be used in carrying out educational assessment, including input versus output and qualitative versus quantitative. As suggested then, it appeared better to think in terms of various types of measures than to try to narrow assessment now to just one or only a few measures. Our more extensive review of assessment activities confirms the view that multiple measures are preferable to single measures.

Education even in its simplest forms is highly variable and multi-dimensional. It becomes exceedingly more complex when it involves systems that include thousands of staff members and tens of thousands of students. It is unreasonable, then, to assume that there is any one measure or limited set of measures which can encompass all factors and interrelationships and accurately reflect the overall effectiveness of a large educational system.

In addition, there are inherent problems with almost any particular type of measurement or testing. First of all, there are problems relating to the quantifiability, availability, accessibility, and reliability of data. Then there are questions and disputes as to whether instruments actually measure or test what they purport to measure and test or whether tests and measures designed for one purpose can be used for a different purpose. Then there is the matter of the impact of tests and measurements on the educational process itself, such as can happen when efforts are directed intentionally or unintentionally toward teaching students to pass the tests rather than to acquire broad skills and knowledge in various subject matter areas.

Recognizing these problems, the choice essentially boils down either not to do anything at all in terms of assessment or to strike for an approximate, composite picture through a variety of measures. Among the jurisdictions active in

educational assessment that we contacted, most were seeking to broaden and diversify their assessment activities as part of their effort to improve the usefulness and effectiveness of their evaluation programs.

Positive versus negative incentives to do assessment. There are two different, though not necessarily mutually exclusive, approaches being taken to the performance of educational assessment. On one hand, there is the strongly mandated approach which is often accompanied by negative incentives. An example of this is the required examination which must be passed in order for those affected to graduate (from high school or college) or to be admitted to another level of education (e.g., to enter college or to move up from the sophomore to the junior year in college). Another example would be the loss of funds by an educational program for failure to measure up to some established standard.

On another hand, there is the more voluntary approach where participation is gained through positive incentives. Illustrative of this approach is the examination which is primarily diagnostic in purpose and which is used to help determine what additional educational services may be needed rather than to stop advancement or deny access to particular educational services. Another illustration would be the provision of extra funds to those programs which can demonstrate improved effectiveness in their delivery of educational services.

Sometimes the two approaches are combined. For example, a state may require that all students at a particular level take a particular test, but only for diagnostic and placement purposes and not for exclusionary ones. Similarly, a state may simply require that some form of assessment be adopted, but leave open to individual institutions the choice of what particular types of evaluation will be used.

Experience elsewhere generally seems to indicate that the positive incentive approach is likely to be more successful. Acceptance and support are reported to be quite strong where those affected feel they have some choice or where the assessment efforts are perceived to be aimed primarily at helping students or improving the educational system rather than penalizing the deficient. In contrast, requirements which have seriously adverse effects upon large numbers of individuals or particular groups can become quite controversial in themselves and end up creating resentment and diverting attention away from the educational process rather than focusing it there.

While it may not be possible to avoid mandatory and negative features altogether, nevertheless based upon the experience of jurisdictions where assessment has been successfully applied it would appear that the emphasis should be upon including positive incentives in any assessment program that is being developed.

Broad participation in assessment development. Closely allied with the preference of positive incentives over negative incentives is the matter of participation in the development of assessment measurements. One approach to installing a system of educational assessment is to place development in the hands of a few experts and then to superimpose the system from the top down. Another approach is to solicit participation in the development by those who will be affected and to encourage input from a variety of sources while building the system up from the bottom.

Both approaches have been used elsewhere. Generally, this experience seems to indicate that the second approach is likely to be more productive than the first approach. This is particularly true at the level of higher education where there is a

strong tradition of faculty involvement in academic matters. Faculty acceptance and support are important to the success of any assessment system and are most likely to be granted where the faculty have a sense of ownership in the development of the system. On the other hand, the system is likely to be resisted if it is viewed as a requirement being imposed from the outside.

This does not mean, however, that the development of assessment measures should be left exclusively to any one group, be it faculty or otherwise. To do so runs the risk of coming up with measures which are too narrow or self-serving. Recognizing that various parties are affected by and have an interest in education and the educational system, it is essential that the assessment system reflect the broad range of community concerns.

Subject matter cooperation and coordination. We note above that cooperation and coordination between state level agencies concerned with lower and higher education still continue to be quite limited. However, we also note that some productive interaction is taking place in some states between the two levels of education. Based on the experience which we looked at, such cooperation and coordination appear to be most successful where they occur on the basis of subject matter field or academic discipline.

A chronic complaint in recent years has been that a great many high school graduates are not adequately prepared when they enter college and as a result colleges and universities have to provide extensive remedial programs. Finger pointing and shifting of blame are frequent responses to this complaint. However, there are examples where successful progress has been made toward overcoming this problem. In these instances, college faculty and teachers in the same field have gotten together and have worked side by side to come up with mutually developed

solutions. Such coordinated and cooperative activities include the revision of curricula and textbooks, the holding of workshops, and the joint administration of assessment tests in such fields as English, mathematics, and science.

Trying to mesh two educational systems on a generalized, statewide basis is undoubtedly a monumental task. This probably explains why relatively little progress has been made at this level. However, the task appears much more manageable if it is approached on an academic discipline or subject matter basis. Here the commonality of expertise and terminology and the mutuality of interests appear to be much more recognizable and to provide a firmer basis for cooperation than is the case when two large systems confront each other and must try to work together.

Assessment of the financial aspects of education. In most of the educational assessment that has been done throughout the country up to now, virtually no attention has been given to the financial or economic aspects of education. However, in the face of rapidly increasing costs of education (particularly at the level of higher education), which often outstrip the overall rate of inflation, increasing concern is now being directed toward assessing the financial aspects of education.

The present U.S. Secretary of Education has been one of the most vocal critics of the increasing costs of higher education and has called upon the nation's universities and colleges to explain and justify their rapidly inflating costs. However, this concern is becoming broader and others are also beginning to question the direction and rate of change taking place with respect to educational costs and tuitions. This is particularly true when workload in terms of numbers of students is remaining flat or actually declining. Thus, while not much has actually been done

yet in terms of assessing the financial aspects of education, indications are that educational agencies elsewhere as well as Hawaii will probably start being looked at in terms of such aspects as total costs, tuition costs, costs per student, and costs per semester credit hour.

A quick look at available data on the University of Hawaii reveals the trend that has been taking place. For the university as a whole and for UH-Manoa, there has been a drop of about 13 percent in the total number of students over the past five years. At UH-Manoa, this has been accompanied by a decline of about 15 percent in the total number of semester credit hours. Yet, the full time equivalent faculty count at UH-Manoa has remained fairly static over this same period. At the same time, total instructional costs at UH-Manoa have increased by about 23 percent. The net effect has been that the average cost per semester credit hour at UH-Manoa has increased by 44 percent over the past five years.

Even if adjustments were made for inflation, this would still represent a fairly sharp increase in the average cost per semester credit hour. Assuming this is representative of the trend nationally, it should come as no surprise that concern over the increasing costs of education is becoming more intense.

Educational Assessment in Hawaii

In our initial report on the impact of the flexibility legislation on UH and DOE, we indicated that Hawaii has not progressed as far as a number of other states in terms of educational assessment but that some preliminary attention was being given to this subject by both UH and DOE. Of the two, DOE had taken the most concrete action. In the sections which follow we bring up to date what the two agencies have been doing with respect to educational assessment.

Department of Education.¹ We reported previously that DOE had developed a proposal for educational assessment which would enable members of the Board of Education (BOE) to judge the quality of schools and the school system and which would motivate principals to set high goals and manage their resources on a continuing and sound basis. That proposal was called the "BOE Monitoring System."

On August 6, 1986, BOE had voted to defer action on the monitoring system in order to give each district School Advisory Council (SAC) an opportunity to review the proposal. The SACs recommended that the ranking of schools be deleted from such a system. Subsequently, the proposed system for educational assessment was revised seven times by the Planning and Evaluation Services Branch of the Office of the Superintendent to incorporate this recommendation. At its meeting on July 9, 1987, BOE unanimously accepted what has been renamed the "School Performance Report Card," as recommended by its Curriculum Committee.

The stated purposes of the new system are:

- (1) To provide the public, the board, and the superintendent with a view of a school's status—that is, the school's effort and success toward improving itself;
- (2) To motivate the school to renew itself by setting high standards and using all of its resources wisely; and
- (3) To help target special resources to schools with special needs in the most rational way possible.

The report card, which each district superintendent is to prepare, will consist of: (1) quality ratings of pupil progress and administrative practices that research has linked with effective schools, (2) a school improvement plan, and (3) a year-end report of results.

All ratings will be referenced to a 5-point scale, with 5 being excellent and 1 being unsatisfactory. School progress will be measured by comparing present performance against past performance at each school. Specific areas to be rated include: (1) academic achievement, (2) attendance, (3) school climate, (4) campus beautification, (5) innovative programs, and (6) pupil behavior. The processes to be rated are: (1) the written plan to improve student achievement, attendance, behavior, and other outcomes over time; (2) the expectations set for students, teachers, other staff, and administrators; (3) the strategies to involve people in planning, making decisions, and solving problems; (4) the use of available resources to improve teaching and learning; and (5) the written plan to monitor student progress and evaluate results.

Much of the data on pupil achievement were already computerized. Thus, the schools are assessing all of those measures. However, to develop their improvement plans, the schools are choosing the areas which they want to emphasize. According to DOE administrators, many of the schools are stressing improvements in curriculum and in staff development. Schools can also use as guidelines the priorities set by the superintendent of education at the statewide level and by the respective district superintendents.

The first set of ratings are expected to be out during the fall of 1988. The baseline set for measurement is the 1983-84 school year. Hence, changes will be measured from then to the present school year. The DOE, then, has at least embarked upon its announced assessment program.

University of Hawaii. Based on our initial report on the impact of the flexibility legislation, the Legislature during the 1987 session adopted House Concurrent Resolution No. 110 which requested UH to develop and implement an

educational assessment program. This resolution has prompted the university to start work on an educational assessment program. The president has designated the director of planning and policy to respond to this resolution and to begin work on formulating an educational assessment plan for the entire UH system. This plan is envisioned by the president as being an integral part of an overall system of accountability which he has stated that he intends to install on a systemwide basis.

As a first step in this effort, a survey was undertaken to ascertain what assessment activities were already occurring on the various campuses. This survey revealed that assessment and accountability activities vary not only from campus to campus but also among academic units on a single campus and even among programs within a single academic unit. In almost all of the surveyed activities, the focus was on program improvement.

The surveyed activities were grouped as follows: (1) assessments of program quality, (2) assessments of student learning and personal development, (3) faculty assessments, (4) community service assessments, and (5) new assessment initiatives. No attempt was made, however, to evaluate or analyze any of the specific assessments grouped under these five categories. The assessment activities run the gamut from indepth studies to accreditation reviews to test scores to survey results. It is undetermined, then, how these various activities may fit together or where gaps and overlaps may exist.

Thus, while UH has indicated its commitment to a system of accountability and assessment, efforts to fulfill this commitment are still in their early formative stages. As indicated above, educational assessment on any overall basis is just starting. Existing activities in their broadly dispersed and uncoordinated form have been inventoried, but UH has not yet developed any specifications for a systemwide

program of educational assessment. Moreover, nothing has been done in terms of fitting educational assessment into any overall program of accountability.

In an attempt to acquire the necessary funding to embark on a systemwide educational assessment program, the president proposed to BOR that \$128,000 be included in UH's supplemental budget request for Fiscal Year 1988-89 "to undertake the specification, development, and implementation of a comprehensive project that utilizes a variety of techniques . . . to appropriately place students, evaluate student progress, analyze student outcomes, identify program strengths and weakness, and make improvements."²

However, BOR turned down the president's proposal on the grounds that more information was needed before the funding request could be adequately considered. The president has indicated that he expects to have a suitable plan to present to BOR for its consideration, but as of early January 1988, no such plan was available.

In addition to the activities cited above, the president has also opened dialogue on the subject with various constituencies within the university. At present, faculty members hold diverse views on the matter, but the prevailing attitude—especially at UH-Manoa—appears to be a noncommittal one. Interest seems to be keenest among the community colleges and at UH-Hilo, and the two chancellors heading those operations have sent members of their respective staffs to attend a mainland conference on educational assessment. At UH-Manoa, the vice president for academic affairs has expressed support for the concept but has also indicated that its implementation should be carried out under the auspices of his office.

In short, much more remains to be done before it can be said that a program of educational assessment and administrative accountability is well under way at UH.

Interagency cooperation and coordination. As noted above, only limited progress has been made in most states with regard to state level cooperation and coordination between higher education and lower education agencies. However, as also noted in our previous report on the impact of the flexibility legislation, Hawaii is in a unique position to bridge this gap and to achieve a comprehensive approach to educational assessment. For one thing, Hawaii is one of the states with the most administratively centralized systems of education at both the higher and lower levels of education. For another, due to the State's relative isolation, Hawaii's two systems of education are closely interrelated—DOE provides UH with the bulk of its students, and UH is the major trainer of teachers for DOE. Hence, there should be a great deal of mutuality of interests between the two systems.

It was in recognition of this situation that we suggested that UH and DOE should be encouraged to give early and concerted attention, cooperatively as well as individually, to the whole matter of educational assessment as it might apply to them jointly as well as separately. In the interim since the issuance of our earlier report, however, little appears to have been done toward taking a cooperative and coordinated approach to educational assessment.

Perhaps this should not be surprising, considering the fact that both agencies are still in the formative stages of coming to grips with the whole idea of educational assessment. A contributing element may also be the fact that the leaderships of both agencies are still relatively new.

This is not to say that there has been no cooperation and coordination between the two agencies. For example, UH-Manoa's College of Education has established a "Teacher Warranty Program" under which it guarantees to work with DOE in helping College of Education graduates employed by DOE who encounter adjustment

problems during their first year of teaching. Such teachers who are identified by DOE as needing additional help and training will be provided counselling, support, and training by the staff of the college during the teacher's first year of teaching. The College of Education is also cooperating with DOE's Leeward District in its "Mentor Program." Each beginning teacher (many of whom are UH graduates) in that district is assigned to and works with an experienced teacher in the assigned school on a one-to-one basis during the first year of teaching. In addition, the community colleges have been working with DOE in strengthening current articulation and joint program efforts so as to ease the transition of students from high school to college.

On an overall and formal basis, however, no action has been taken by either agency to explore and formulate any joint or cooperative approach to educational assessment. Recognizing that problems like the lack of preparation of many high school graduates to handle beginning college work are matters of common concern to both agencies, this is an area that should not go unattended any longer. Thus, as we indicated in our earlier report, it is time for the two agencies to look at educational assessment in joint and comprehensive terms as well as in terms of their own separate needs and objectives.

Recommendations

With regard to the application of educational assessment in Hawaii, we reiterate and elaborate on the recommendations made in our 1987 report on the effects of the administrative flexibility legislation. More specifically, we recommend as follows:

1. *Both the Department of Education and the University of Hawaii should expand and accelerate the attention they are giving to educational assessment and should develop broad and meaningful plans for evaluating their respective programs. In these efforts, they should look at what is happening nationally in the area of educational assessment and should also consider interrelationships between higher and lower education in Hawaii. Accordingly, due regard should be given to the following:*

- . The importance of thinking in terms of multiple measures rather than single or very few measures;*
- . The desirability of emphasizing positive rather than negative incentives;*
- . The value of broadening participation in the development of assessment programs;*
- . The potential benefits to be derived through cooperation and coordination on the basis of subject matter areas or academic disciplines; and*
- . The need to give adequate attention to the financial and economic aspects of education.*

2. *The Legislature should request that the two educational agencies submit to the 1989 legislative session the plans they have developed for the assessment of their respective educational programs and of interrelationships between the programs of higher and lower education. These plans should describe the nature and scope of the assessments to be made and should include projected costs and timetables.*

NOTES

Chapter 1

1. Letter of Agreement from George R. Ariyoshi, Governor, to Albert J. Simone, President, University of Hawaii, September 24, 1985.
2. University of Hawaii, Board of Regents, Minutes of Regular Meeting, Honolulu, September 20, 1985.
3. Hawaii, Legislative Auditor, *First Interim Report: Evaluation of the Administrative Flexibility Legislation Affecting the Department of Education and the University of Hawaii, Acts 320 and 321, SLH 1986*, Report No. 87-8, Honolulu, 1987.
4. *Ibid.*
5. *Ibid.*

Chapter 2

1. Memorandum to Albert J. Simone, President, University of Hawaii, from Ralph T. Horii, Jr., Vice President for Finance and Operations, February 6, 1987.
2. Hawaii, KPMG Peat Marwick, *Management Audit of the Financial Operations at the University of Hawaii*, September, 1987.
3. Memorandum to Albert J. Simone, President, University of Hawaii, and Charles T. Toguchi, Superintendent, Department of Education, from John Waihee, Governor, State of Hawaii, June 19, 1987.
4. Hawaii, Legislative Auditor, *Budget Review and Analysis of the Higher Education Program (University of Hawaii)*, Report No. 83-8, Honolulu, January 1983.
5. *Ibid.*
6. University of Hawaii, Office of Budget, "Annual Report on Transfers," August 4, 1987.
7. *Ibid.*
8. *Ibid.*
9. House Standing Committee Report No. 824-86 on Senate Bill No. 1780-86, S.D.2, H.D.2, (Act 320), Thirteenth Legislature, 1986, State of Hawaii.

10. Hawaii, Legislative Auditor, *Preliminary Report: A Study of Electricity Cost and Consumption*, Report No. 88-2, Honolulu, 1988.

Chapter 4

1. This description of the proposed system is drawn from a memorandum to Mr. Randal Yoshida, Chairperson, Board of Education, from Dr. Hatsuko Kawahara, Chairperson, Curriculum Committee, Subject: School Performance Report Card, and attachments to the memorandum, June 15, 1987.

2. University of Hawaii, Office of Planning and Policy, "FB 1987-89 Supplemental Operating Requests," Honolulu, August 12, 1987.