
Status Report on Monitoring Fiscal Accountability of the Department of Education

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 95-5
February 1995



THE AUDITOR
STATE OF HAWAII

The Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds and existing funds meet legislative criteria.
7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.
8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.
9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR STATE OF HAWAII

Kekuanao'a Building
465 South King Street, Room 500
Honolulu, Hawaii 96813

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Status Report on Monitoring Fiscal Accountability of the Department of Education

Summary

Act 272 of 1994 directed the State Auditor to prepare annual fiscal accountability reports of the expenditures of the Department of Education (DOE) and evaluations of its programs. The Act also requires the DOE to provide the State Auditor with electronic access to its computer-based information systems. Direct access to those systems is necessary for the Auditor to test data and provide reliable financial accountability reports and program evaluations.

This first report describes our approach to complying with the Legislature's request. The report provides an overview of the DOE's information systems and how we plan to access data within them. It also reviews the adequacy of the department's expenditure reports which identify administrative and other costs.

The DOE has several major information systems, each with different access requirements. These systems include the Financial Management System (FMS), the School Information System (SIS), and the Personnel Information System (PIPS). The department also has a centralized depository for data collected in these systems, known as the "data warehouse."

We found that to comply with legislative requirements of Act 272, it would be best for the State Auditor to obtain access to the data warehouse instead of separately accessing each information system. We also found that should it be necessary to obtain up-to-date financial information, the Auditor could access FMS directly.

We also found that the DOE's current reporting of costs by functions—such as classroom instruction as distinguished from classroom support, as in counseling and libraries, for instance—does not reliably identify how educational dollars are being spent. Consequently, the DOE does not know how much it expends for the administration and implementation of educational programs. Finally, we found that the DOE lacks the management controls that would provide reasonable assurance that expenditures for services attributed to school sites by state and district offices are actually received by the schools. We were therefore unable to verify the accuracy of costs attributed to the schools by the state and district offices.

Recommendations and Response

We recommend that the Legislature require the DOE to report its expenditures by location and function. The reports should account for differences in functional costs at the state, district, and school levels.

In addition, we recommend that the superintendent of education develop management controls to assure the accuracy of state and district office costs that are attributed to school sites.

The DOE concurs with the findings on accessing the DOE's information systems. The department notes that it took the initiative to develop the data warehouse to make it easier for all interested parties to access information about Hawaii's public school system.

The department basically concurred with our recommendation that the DOE report its expenditures by location and function. However the department noted there may be problems in obtaining some expenditure reports by function, such as staff development. It notes that expenditure reports for staff development may need to be estimated rather than reported as dollar accurate.

The DOE, however, disagrees with our finding that it does not know how much it expends for the administration and implementation of educational programs. The department argues that only one percent of the department's \$1 billion per year budget is misclassified.

The DOE also states that the Auditor recommends that the Cascade Model be used to report expenditures to the Legislature. DOE prefers the NCES model. This report does not recommend use of the Cascade Model. However, we do note that the NCES model does not require the department to report expenditures by location. If the DOE wishes to use the NCES model, the department would need to report the functional categories in the NCES model by location to make the reports meaningful to the Legislature.

Finally, the DOE does not comment on our recommendation to develop management controls to assure the accuracy of state and district office costs that are attributed to schools.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

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Submitted by

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Foreword

The report was prepared in response to Act 272 of 1994 which directed the State Auditor to prepare annual fiscal accountability reports of the expenditures of the Department of Education (DOE) and evaluations of its programs.

We wish to acknowledge the cooperation and assistance extended to us by the officials and staff of the Department of Education and the Department of Budget and Finance whom we contacted during the course of our study.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

Act 272 of 1994 directed the State Auditor to prepare annual fiscal accountability reports of the expenditures of the Department of Education (DOE) and evaluations of its programs. The results of the annual accountability reports and evaluations are to be submitted to the Legislature prior to the convening of each legislative session. In this first report, we describe our approach to complying with the Legislature's request in Act 272. We focused on two main areas: (1) access to the DOE's information systems that would provide the data for our reports, and (2) the adequacy of DOE's expenditure reports that identify administrative and other costs, including expenditures for the schools.

Background

Hawaii has the only state-administered, unified public school system in the nation. With a budget of almost \$1 billion, the public education system accounts for about one-third of the state's general fund expenditures. These expenditures support a variety of activities and programs ranging from repair and maintenance of school facilities to the purchase of classroom textbooks, computers, paper, and other school supplies.

The Legislature has actively promoted educational reform for several years. Increased attention is being given to providing schools with greater fiscal and curricula autonomy through School Community Based Management (SCBM) and student centered schools. The Legislature has supported SCBM in the belief that the school is the basic unit of the educational system and should have the power to decide on its curriculum and its use of resources.

The Legislature has recognized that restructuring the educational system requires that the DOE and legislators have school level expenditure information. In Act 272, the Legislature noted that the current budget format obscures funding decisions concerning individual schools. The Legislature also mandated specific changes in DOE's budget practices.

Act 272 stipulates that starting with the 1995 legislative session, DOE's operating budget must separate administrative expenses from instructional expenses. School site staff and services are defined as instructional expenses. The DOE may not transfer funds between administrative and instructional expenses for other than "extreme

unforeseen circumstances.” These reporting requirements should help the Legislature obtain accurate fiscal information for making its decisions on appropriations.

To better understand the DOE’s expenditures, earlier in 1993 the Legislature directed the State Auditor to study the feasibility of applying a model that would analyze and categorize expenditures down to the school level. The State Auditor contracted with Dr. Bruce S. Cooper to test the feasibility of applying his Micro-Financial Analysis Model to Hawaii (Report No. 94-6). The model demonstrated that it is possible to track expenditures at the state level, district level, and on a school-by-school basis and to categorize expenditures into administrative, instructional, and other costs.

In order to follow up on the earlier analysis, Act 272 required the State Auditor to have electronic access to the DOE’s computer-based information systems, including but not limited to the financial management and school information systems. Such access was believed to be essential for the State Auditor to test the DOE’s information systems and to generate reliable financial accountability reports and program evaluations.

Objective

The objective of this study was to comply with requirements in Act 272, SLH 1994, which requires an analysis of DOE’s expenditures and its measures of accuracy, efficiency, and productivity in delivering resources to the classroom and student.

Scope and Methodology

To carry out the objective of this study, we reviewed the DOE’s information systems and the data they generate. The systems include the School Information System, the Personnel Information System, and the Financial Management System. Our review of each system was limited to examining its purpose, use, data elements, and hardware and software components. We also examined what would be required for us to obtain electronic access to the systems.

To perform a fiscal accountability assessment, we reviewed the DOE’s plans to separate administrative from instructional expenditures beginning with its budget for the fiscal biennium 1995-97. We reviewed DOE’s expenditures for FY1993-94 and assessed whether state and district level costs that the DOE had attributed to schools could be verified at the school level. We interviewed fiscal and systems officials at DOE’s offices on Oahu. We also reviewed budgetary documents.

We obtained state, district, and school-by-school expenditure reports. We interviewed state, district, and school staff and sampled schools to test the degree to which costs are being attributed appropriately to the schools.

Our work was performed from September through December 1994 in accordance with generally accepted government auditing standards.

Chapter 2

Accessing Information Systems

In this chapter we describe the information systems at the Department of Education (DOE) and the centralized depository where the data are stored for review and analysis. We also assess the potential utility of electronically accessing each system and we discuss the hardware and software requirements for completing that task.

Summary of Findings

1. The department has several major information systems, each with different access requirements. The department also has a centralized depository for data collected in these systems, known as the "data warehouse." To comply with legislative requirements, it would be best for the Office of the Auditor to obtain access to the data warehouse instead of separately accessing each information system.
2. Should access to up-to-date financial information be necessary, the Auditor could access DOE's Financial Management System (FMS) directly.

DOE Has Several Independent Information Systems

Act 272, Session Laws of Hawaii 1994, requires the DOE to provide the State Auditor with electronic access to its computer-based information systems. Direct access to DOE information systems is necessary for the Auditor to test data and provide reliable financial accountability reports and program evaluations.

These systems include the School Information System (SIS), the Personnel Information System (PIPS), and the Financial Management System (FMS). Each of these is an independent system. Much of the information collected in these three systems is deposited and regularly updated in the department's data warehouse located at the Information Resource Management Branch in the DOE's Office of Information and Telecommunication Services (OITS).

We examined the purpose, use, and location of, as well as the data elements within each information system to determine how best to access needed data.

***The School
Information System
(SIS)***

SIS consists of several 10- to 20-year old programs created individually to meet specific data reporting and monitoring needs at school and state levels. For example, SIS includes programs designed to collect and monitor student grades, to schedule students and maintain information about schedules, and to maintain accurate attendance records. The programs have not been systematically integrated but information collected from one program can be used or compared with information in another program. In addition, SIS contains two sets of information at two locations: (1) data on elementary school students (grades K through 6) are on an IBM 3090 mainframe computer in the Information and Communication Services Division at the Department of Budget and Finance (B&F); and (2) data on secondary school students (grades 7-12) are on a VAX system at DOE's OITS. The department claims that elementary schools have different information requirements from intermediate schools and high schools. For example, secondary schools need data on class schedules that are not needed by elementary schools.

***The Personnel
Information System
(PIPS)***

PIPS was developed primarily to capture information about certificated employees—teachers, school administrators, and school counselors. The DOE also collects background information on potential employees (i.e., teaching experience, former employment, and college degree), maintains records on probationary teachers, matches teaching recruits to school vacancies, and assigns substitute teachers to schools.

PIPS is divided into several subsystems including: a certification/classification system; an employee background check system; a probationary teacher rehire system; a recruitment system; the salaried certificated personnel position, the school list placement and SF 5 processing system; and the substitute teacher system. From the standpoint of educational program analysis, the most significant subsystem is the certification/classification subsystem.

The certification/classification system has personal and educational background information on current certificated employees such as school principals, teachers, substitute teachers, and teacher applicants. Access to and analysis of this information can be used to generate reports on the characteristics of the department's certificated staff, identify the characteristics of staff who fill school vacancies, and correlate teacher characteristics to program outcomes.

***The Financial
Management System
(FMS)***

FMS was created to provide more accurate, timely, and comprehensive financial information for decision makers at the school, district, and state levels. FMS is on a mainframe computer at B&F's Information and Communication Services Division. Data are entered into the system through microcomputers at schools and district and state offices.

The data are posted to a central set of ledgers on the mainframe computer.

Data warehouse

The data warehouse was created to be an easily accessed, user friendly source of information about the DOE's personnel, fiscal records, and student performance. The data warehouse contains information from the DOE's existing information systems. Information from these systems is regularly downloaded from the IBM 3090 and the VAX cluster system. The DOE plans to add information about classified personnel to the data warehouse. Currently this data is maintained by the Department of Human Resources Development.

The data warehouse can be accessed by IBM compatible microcomputers using either a Windows or OS/2 environment or by Apple Macintosh. DOE intends that all schools, districts, the central office, and other interested parties who are authorized to access DOE information should be able to obtain information from the data warehouse.

DOE is working toward a client-server based system

In keeping with the movement away from centralization and toward school/community based management (SCBM), the DOE is moving away from centralized information systems to local area network (LAN) and wide area network (WAN) architecture. Its current focus is on meeting the information needs of schools for their management and decision making.

In November 1990, DOE began testing two software packages to improve school access to information. In January 1992, the department selected a multi-user, LAN software that can be used on both Macintosh and IBM compatible micro-computers. This software provides schools with information 24 hours a day, seven days a week. Schools use their own funds to purchase hardware, while state and district personnel have been providing training and software at no cost to schools. The software has been installed in almost 80 schools. The remaining schools should be on-line by mid 1995. Once all schools are on-line, the IBM main frame and VAX applications will be phased out.

Electronic Access Is Needed for Reliable Reporting

With electronic access to the data in the department's information systems, the State Auditor could provide the Legislature with timely and accurate reports on DOE budgets and expenditures, personnel, student achievement, and educational programs. Table 2.1 lists various capabilities that could be developed in the Auditor's Office through electronic access to DOE information systems.

Table 2.1 Reporting Capabilities With Electronic Access to DOE Information Systems

Fiscal

Administrative and Instructional Expenses

- . verifying current expenditures
- . tracking expenditures over time
- . testing cost attributions by function
- . comparing school, district, and program level expenses

Budgeting

- . verifying and monitoring fund allocations
- . tracking allocations over time
- . identifying inappropriate transfers of funds

Other

- . comparing school and program budgets to expenditures

Personnel

- . tracking the number and type of teacher vacancies
- . summarizing teacher education, certification, and prior work experiences
- . summarizing demographic information on certificated employees
- . comparing certifications to assignments

Student

- . tracking student performance and graduation rates over time
 - . comparing student performance by school and district
 - . correlating student performance with school expenditures, teacher experience, and other variables
 - . summarizing program participation
 - . correlating high school performance to university achievement
-

With respect to fiscal issues, we could analyze “administrative” and “instructional” expenses for accuracy, track them year to year, and verify them at program, school and district levels. Both types of expenditures could be compared across schools, districts, and programs. In addition, how funds are allocated to schools, offices, and programs can be tested, and allocations can be compared to expenditures.

With respect to personnel, we could review and analyze data about certificated employees to determine the total number of teachers needed by school, district, school type, and subject area. We could summarize

experience, and number and type of certificates. In addition, teacher education and experience could be compared with teacher salary levels and be summarized by school, district, school type, and subject area.

With information about students we could review, track, and summarize student performance. We could review performance measures such as the Stanford Achievement Test, the National Assessment of Educational Progress, the Scholastic Assessment Test, and the Hawaii State Test of Essential Competencies. In addition, critical information such as student graduation rates and cumulative grade point averages could be analyzed as measures of school achievement. Finally, student performance measures could be compared with other variables such as school expenditures and teacher experience.

***Access to data
warehouse would be
best approach***

Each system was developed at a different time for different reasons. With the exception of the data warehouse, which is a data depository for the other information systems, the information systems essentially operate independently of each other. We found that it is not efficient to access each system separately. First, each has different access requirements—separate equipment would have to be purchased, and separate cable lines and modems would need to be installed. Second, integrating data for review and analysis would be difficult if each system were accessed separately.

We believe that the best approach is to access the information in the data warehouse. The data warehouse contains virtually all the data we would require in the foreseeable future. In addition, the data warehouse has preformatted and ad hoc reporting structures that we could use. The only disadvantage is that some information at the warehouse is not completely up to date. However, the DOE does update data in the warehouse at regular intervals.

DOE has a legitimate concern that unrestricted access to “live” systems may impinge upon the integrity of those systems. Since the information systems are not restricted to a query-only basis, data can be manipulated by anyone who obtains access to them. Outside manipulation could result in reporting errors.

The DOE argues that its data can be better accessed at the data warehouse which is designed to be more receptive to data review and analysis than the separate information systems. The warehouse has most of the information needed to respond to legislative requests. In addition, using one centralized depository is easier than accessing separate, independent information systems.

We believe that expenditure data downloaded quarterly into the data warehouse, and other personnel and student information stored within the system, can fulfill most of the Auditor's reporting requirements. Most of these reporting requirements are historical in nature and do not rely upon current personnel or student data. However, should the Auditor need to test current expenditures, either access to FMS will be needed or the DOE will need to update the data warehouse much more frequently. The DOE notes that it can download expenditure data to the warehouse every two weeks, if necessary.

Office is not equipped to access information systems

Currently the Office of the Auditor does not have any computers with the speed and memory to review and analyze data downloaded from the DOE's information systems. New computers and an operating system for them will need to be purchased. Modems of sufficient speed to handle data transfers will also be required. The database and spreadsheets currently used in the office are not sufficiently flexible or powerful enough to handle the amount of data to be analyzed. A control unit and cables will also be needed.

For the office to access DOE information systems, the following will be required:

- personal computers with sufficient speed and memory,
- an IBM OS/2 operating system,
- external modems,
- various database and spreadsheet software,
- a mainframe connection, and
- fiber optic cables.

We estimate that the costs for acquiring these will be approximately \$60,000.

Chapter 3

Assessment of the Department of Education's Attribution of Expenditures

In this chapter we review how the Department of Education (DOE) accounts for expenditures at the state, district, and school locations for such generic educational functions as administration, facilities and operations, and instruction. The DOE's current expenditure reports do not reliably and accurately report these expenditures, but we believe that the department has the capability to do so.

Summary of Findings

1. The DOE's current reporting of costs by functions does not reliably identify how educational dollars are being spent. Consequently, the DOE does not know how much it expends for the administration and implementation of educational programs.
2. The DOE lacks the management controls that would provide reasonable assurance that expenditures for services attributed to school sites by state and district offices are actually received by the schools. We were therefore unable to verify the accuracy of costs attributed to the schools by the state and district offices.

A Model to Analyze Expenditures Can Be Applied to Hawaii's Public Schools

In FY1992-93, the Legislature appropriated almost \$1 billion to support public school education in Hawaii. It was concerned about the effectiveness of these expenditures and expressed a need for better information on how state resources have been spent to support education in the schools. It asked the State Auditor to study the feasibility of applying a model to analyze expenditures for public education.

The Cascade model

In response, the State Auditor contracted with Dr. Bruce S. Cooper, a professor at Fordham University School of Education in New York City, to apply a "Micro-Financial Allocations Study Model" or "Cascade Model" to expenditures for public schools in Hawaii. The model accounts for expenditures by location and by five functions. Costs by location are separated into central office costs and school site costs. Costs by function are separated into: (a) administration, (b) facilities and operations, (c) staff development, (d) pupil support, and (e) classroom instruction.

The model was modified for Hawaii in two main ways. First, unlike other school jurisdictions nationwide that have one central location for expenditures, Hawaii has two central locations—the state office and district offices. Second, the DOE said that it was unable to separate state and district office expenditures into the five functional categories. Consequently, for the state and district locations, the five functions were consolidated into two. Costs for administration, facilities and operations, and teacher support were collapsed into a single category of Administration—designated as A for the state office and A' for the district offices. Costs for pupil support and instructional support were merged into Instructional and Pupil Support—designated as E for the state office and E' for the district offices. Descriptions of the functions at each location as the model was applied to Hawaii are shown in Exhibit 3.1.

The resulting report, *The Feasibility of Applying the Micro-Financial Analysis Model to Expenditures for Public Education in Hawaii: What Reaches the Classroom?*, Report No. 94-6, found that this model could be applied to Hawaii's public schools and generate useful information.

Using the framework of the model, the DOE reported central expenditures of \$152.9 million for the DOE state office and seven district offices or 16.3 percent of the direct costs of public education. However, it attributed \$96.7 million of that amount to expenditures made on behalf of schools, resulting in central administrative costs of about 6 percent. In our 1994 report, we recommended that further research be done to see what resources expended at the DOE state and district offices actually translated into staff and programs on site.

After continued research into DOE expenditures we find that the DOE's categorization of costs by function is not reliable.

DOE's Attribution of Costs by Function Is Not Reliable

Locations are not properly considered in assignment of functional costs

The methodology used in attributing costs by function results in unreliable information in two ways. First, it fails to consider the location making the expenditure, and second, the DOE's assignment of programs to specific functions is not always correct.

Currently, the DOE assigns all costs for a program to one functional cost category, such as classroom instruction (e), without identifying the functional differences program expenditures may support at different locations. DOE assigned each program in its list of expenditures in its Financial Management System (FMS) to one of two functions at the state or district offices or one of five functions at the school sites.

Exhibit 3.1

Micro-Financial Analysis Model--Functions By Site Location

STATE OFFICE FUNCTION: *	DISTRICT OFFICE FUNCTION: *	SCHOOL SITE FUNCTION:
<p>A. Administration, Facilities, Operations, Teacher Support and Development</p> <ul style="list-style-type: none">Superintendent, financial management and support services, staff, offices, supervisors, directors, including salaries plus fringe benefits.State office buildings, lights, heat, air conditioning, repairs, maintenance upkeep, plus the cost of running the facilities and operations. Salaries and fringe for operations management staff at state office.Planning, coordinating, and directing teacher in-service education, staff training director and staff who work out of the state office.	<p>A'. Administration, Facilities, Operations, Teacher Support and Development</p> <ul style="list-style-type: none">District Superintendent, financial management and district support services, staff, offices, supervisors, directors, including salaries plus fringe benefits.District office buildings, lights, heat, air conditioning, repairs, maintenance upkeep, plus the cost of running the facilities and operations. Salaries and fringe for operations management staff at district offices.Planning, coordinating, and directing the teacher in-service education, staff training director and staff who work out of the district offices.	<p>a. Administration</p> <p>Principal, assistants, secretaries. Office expenses, salaries plus fringe benefits.</p> <p>b. Facilities & Operations</p> <p>School site building costs, including utilities, repairs and custodial costs, bus services, food services.</p> <p>c. Teacher Support & Development</p> <p>Delivery of school-site staff development, mentoring, peer coaching, sabbatical leaves, other teacher support efforts.</p> <p>d. Pupil Support</p>
<p>E. Instructional and Pupil Support</p> <ul style="list-style-type: none">State office coordinators and directors of instructional programs who provide services to teachers in their classes. Costs of supporting instruction--such as screening textbooks, writing texts and materials, as well as purchase of direct materials.State office coordination and direction of student support function. Salaries and fringes, office and secretary for the pupil personnel and support functions, psychologists and others who direct and coordinate student services.	<p>E'. Instructional and Pupil Support</p> <ul style="list-style-type: none">District office coordinators and directors of instructional programs who provide services to teachers in their classes. Costs of supporting instruction--such as screening textbooks, writing texts and materials, as well as purchase of direct materials.District office coordination and direction of student support function. Salaries and fringes, office and secretary for the pupil personnel and support functions, psychologists and others who direct and coordinate student services.	<p>Out-of-classroom student support: guidance counselors, media and library staff, coaches, club leaders, and others who work with students. Salaries and fringe benefits, plus offices.</p> <p>e. Classroom Instruction</p> <p>Teachers' salaries and fringe for work done in classroom. Other classroom staff costs, including teacher aides, paraprofessionals; textbooks, material, computers used in classrooms; paper, chalk, and other disposables.</p>

* The Cascade Model provides for the five school site functions at the central site (e.g., state and district offices). The DOE said it was unable to separate state and district offices' expenditures into the five functional areas. In applying the model to Hawaii, the functional categories for administration, facilities & operations, and teacher support were collapsed into one category, Administration (A, A'). The functional categories for pupil support and classroom instruction were merged into Instructional and Pupil Support (E, E').

However, a program could serve one function when implemented at the state and another at the district offices or school sites. Ignoring the location making the expenditure results in the assignment of functional costs that do not accurately represent expenditures made.

For example, a single program ID may involve administrative costs at the state office (function A), teacher training costs at the district offices level (functions C' and/or c) and classroom instruction at the school level (function e). This jeopardizes the integrity of the data used in tracking how the DOE expends its resources. As a result, we found examples of state and district level expenditures that were reported in inappropriate functional categories.

Assignments of functions are not always correct

To determine whether costs attributed to schools by the central DOE state office and district offices were appropriate, we interviewed state and district officials to identify what services they provided at school sites. We also attempted to verify the services received by the schools. We found the attribution of costs was not always appropriate.

For example, program expenditures that were attributed to classroom instruction at school sites (function e) were actually for teacher support services (function c). Improperly assigning this expenditure to (e) increases the amount reportedly spent in the classroom for instruction and reduces the amount reportedly spent in delivering training for teachers.

We sampled the attribution of functional costs for about 25 programs. Exhibit 3.2 lists a sample of programs with questionable attributions of functional costs. These are programs implemented by various state and district offices. The DOE attributed all these costs to classroom instruction (function e). They are more correctly classified as central office administration costs (function A), teacher support and development (function c), and pupil support (function d). The amount inappropriately attributed to classroom instruction exceeds \$3.3 million.

Program costs inappropriately attributed to classroom instruction include state office administrative costs for attorney fees and award judgments for claims against the State under the Individuals With Disabilities Act. State administrative costs (function A) totaling about \$400,000 were inappropriately attributed to classroom instruction (function e). We also found \$772,000 of State office expenditures attributed to classroom instruction (e) instead of teacher support (function c). Likewise, another \$1 million of district expenditures for teacher support were inappropriately labeled as classroom instruction.

Exhibit 3.2

Programs With Questionable Function Assignment, FY1993-94

STATE LOCATION:

Program ID Code	Program Name	Description of Program	Current Function Assignment	Recommended Function Assignment	FY1993-94 Expenditure
15811	Curriculum Improvement, Social Studies by OIS	Teacher development training for social studies, including the annual Geography Alliance.	Classroom Instruction (e)	Staff Support (c)	\$ 110,500
16763	Consortium for Teaching Asia/Pacific by OIS	Teacher development training in Asia/Pacific issues	Classroom Instruction (e)	Staff Support (c)	333,341
17460	Transition Services for Youth With Disabilities--FY93 by OIS	Training for support teams (primarily teachers) to assist students with severe disabilities leave the DOE system and maintain a job.	Classroom Instruction (e)	Staff Support (c)	14,718
17461	Transition Services for Youth With Disabilities--FY94 by OIS	Training for support teams (primarily teachers) to assist students with severe disabilities leave the DOE system and maintain a job.	Classroom Instruction (e)	Staff Support (c)	304,879
17851	System Change Project--Teacher Training--UAP/UH by OIS	In-service training for teachers who work with students with severe disabilities in an inclusive environment.	Classroom Instruction (e)	Staff Support (c)	8,127
Subtotal					\$ 771,565
17746	Attorney & Related Fees by OIS	Attorney and related fees paid to parents who prevail in judicial or administrative proceedings against the State of Hawaii under the Individuals With Disabilities Education Act (IDEA).	Classroom Instruction (e)	Administration (A)	\$ 392,235
17796 17920 17939	Indirect Cost for Federal Programs by OIS	Portion of federal funds designated as the state cost of administering a federal program.	Classroom Instruction (e)	Administration (A)	18,295
Total amount of expenditures at state level with questionable function assignment					\$ 1,182,095

Exhibit 3.2 (continued)
Programs With Questionable Function Assignment, FY1993-94

DISTRICT LOCATION:

Program ID Code	Program Name	Description of Program	Current Function Assignment	Recommended Function Assignment	FY1993-94 Expenditure
17720 17796 17920 17939 18905	Indirect Costs for Federal Programs	Portion of federal funds designated as the state cost of administering a federal program.	Classroom Instruction (e)	Administration (A)	\$ 690,934
15110	Basic Needs	The majority of Basic Needs expenditures at the districts were for teacher development and support.	Classroom Instruction (e)	Staff Support (c)	927,358*
16161	EESA Title II Formula Grant FY1993	Federal funds used to improve the quality of math and science instruction through teacher development.	Classroom Instruction (e)	Staff Support (c)	191,613
18583	Language Arts Multicultural Program (LAMP)	Purchase of Service contract for third and fourth graders to improve language arts and social skills, to develop positive attitudes toward learning, and to involve parents in the learning process.	Classroom Instruction (e)	Out-of-Classroom Student Support (d)	269,064
Total amount of expenditures at district level with questionable function assignment					\$ 2,078,969

*The expenditures reported include only those districts where the majority of their Basic Need program provides teacher support.

The districts also expended about \$700,000 during FY1993-94 for the administration of federally funded programs which the DOE improperly attributed to classroom instructional expenses (function e). Federal guidelines define the indirect costs of these programs as the State's cost for the administration of federally funded programs. Thus, the expenditures should have been categorized as a state office administrative cost (function A).

Matrix by site and function is needed to accurately track expenditures

In order to generate reports which more accurately identify how and where DOE expends funds, the department must account for functional program costs by location at the state, district and school levels. This would require the DOE to break out costs by both location and each program in order to identify the types of functions served by each program at the state, district, and school locations. The assigned function should reflect the majority of services and/or goods provided by location for each program.

We recognize that the DOE will need time to review the type of services/goods provided at each level for each program. However, we believe that without this additional level of detail, reports on expenditures will be unreliable and inaccurate. In addition, by collapsing five functions into two for both the state and district offices, the DOE does not provide sufficient detail to track how funds are expended.

The DOE is capable of reporting information by location and then by function because FMS has the ability to produce expenditure summarization reports by function and organization unit. The DOE should improve its computer program to account for the varying functions within each program at each location.

NCES reporting lacks sufficient detail

In responding to the Auditor's earlier report on the Cascade analysis, the DOE testified to the Legislature that it prefers to report expenditure information using the format of the National Center for Education Statistics (NCES). DOE says that the NCES format requires the department to report the data in functional categories similar to that of the Cascade Model.

However, the same problems with the attribution of costs exist with the NCES format. The DOE currently does not report expenditure information to NCES by location for the state, district, and school levels. It reports expenditure data only by programs such as instructional, student services, general administration and school

administration. The reports submitted by DOE to NCES do not accommodate program variations in services at different expending locations (state, district, school level).

In order to report expenditure information at each of these three levels accurately, the DOE will still need to disaggregate that information into the NCES reporting categories. Functional costs attributed to each level will vary depending on the expending site.

State and district expenditures attributed to school sites were unverifiable

We were unable to verify the costs the state and district offices attributed to school sites. Consequently, the accuracy of the reported costs is unknown.

We contacted a random sample of schools to verify whether they actually received the services the state and district offices reportedly provided. The schools generally confirmed that they received services from both state and district offices. However, they were unable to verify the amount of expenditures made by the state and district offices for school site activities since the schools kept no formal record of services received from the state and districts offices. Several schools said they could compile some of the information by going through individual program files and/or sorting through old purchase orders. This, however, would still not ensure that each school accounted for all services it received.

Staff service records may be kept by some district staff. However, we were informed that there is no formal record keeping requirement. One district business specialist stated district staff are beginning to track the amount of time they spend at the schools. The General Education Branch of the State Office of Instructional Services informed us that its staff are also beginning to keep time sheets to determine how much time is actually spent at the schools. State and district staff efforts to track the amount of time spent at the schools are a result of Section 1, Act 272, SLH 1994, which requires the state and district offices to downsize and reform their managerial role to one of support for schools.

The DOE should develop methods to document what services are delivered to the school site. This is needed if the state and district offices intend to continue to attribute the majority of their expenditures to schools. In addition, appropriate management controls to validate costs attributed to the schools will help the superintendent of education ensure that the legislative mandate for restructuring is being met and that expenditures are being tracked appropriately.

Conclusion

The Legislature and the DOE both recognize the value of tracking expenditures to improve decisions on funding, setting of priorities, and measurement of the effectiveness of these decisions. For the DOE to provide meaningful data, it must report costs reliably and accurately. To do so, it must account for costs by location and then by program. The data the DOE currently reports to NCES does not meet this requirement. The DOE has the capability to track its expenditures reliably and it should make an effort to do so.

Recommendations

1. The Legislature should require the Department of Education to report its expenditures by location and function. The reports should account for differences in functional costs at the state, district, and school levels.
2. The superintendent of education should develop management controls to assure the accuracy of state and district office costs that are attributed to school sites.

