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January 14, 1999

Mr. Carl T. Hayden
Chancellor
State Education Department
State Education Building
Albany, NY 12234

Re: Report 98-F-47

Dear Mr. Hayden:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the State Education Department (Department) as of December 31, 1998, to implement the recommendations included in our prior audit report, Report 95-S-108, entitled "*State Education Department Oversight of School Districts' Non-Instructional Activities.*" Our prior audit report, which was issued on March 28, 1997, examined the adequacy of Department procedures for developing and distributing information about the cost-effectiveness of school districts' non-instructional operations and identified actions to improve the cost-effectiveness of both Department and school district operations.

Background

Section 101 of the State Education Law (Law) charges the Department with the general management and supervision of all public schools. Section 305 of the Law states that the Commissioner of Education should provide for the examination and inspection of public schools, and advise and guide school officials in relation to their duties and the general management of the schools under their control. The Department's Office of Elementary, Middle, Secondary and Continuing Education (EMSC) carries out the Commissioner's responsibilities for overseeing the State's 707 public school districts.

Department officials estimate that New York State school districts spent about \$26 billion (including capital costs) during the 1996-97 school year. While school districts spend most of these funds for instruction, they also spend significant amounts on non-instructional activities. In school year 1996-1997, for example, school districts spent a total of \$18.6 billion for instructional services and \$7.5 billion for non-instructional services. For the purposes of our review, non-instructional services included such functions as building maintenance, transportation, business administration, and

other activities not integral to classroom instruction.

Summary Conclusions

In our prior audit, we found that, while Department managers collect significant amounts of data from school districts, they do not analyze the data to obtain indicators of the relative cost effectiveness of districts' non-instructional operations. We also found that the Department could take additional steps to inform school districts about best practices.

In our follow-up review, we found that the Department has begun to take steps to analyze and distribute data that addresses the cost-effectiveness of the State's public schools. However, the Department can further improve the cost-effectiveness of the State's public schools by strengthening its efforts in this area, and by identifying best practices and sharing such information with school districts statewide.

Summary of Status of Prior Audit Recommendations

Of the eight prior audit recommendations, we found that the Department implemented four recommendations and partially implemented four recommendations.

Follow-up Observations

Recommendation 1

Regularly distribute information concerning innovations and best practices to school district administrators.

Status - Partially Implemented

Agency Action - The Department has taken an initial step in collecting best practice information by requiring school districts to complete "Cost-Effectiveness Self-Assessments" and submit the resulting reports to the Department in April of 1998. However, Department staff have not yet analyzed these reports to identify developments and innovations in some school districts that could be useful for improving operating efficiency in other districts. Without this analysis, the Department cannot adequately identify cost-effective and innovative school district operating practices and share this information with districts statewide.

Auditors' Comments - EMSC staff should analyze and compare school district cost data and self-assessments to identify districts who are using innovations and best practices to lower their operating costs. The Department should then regularly disseminate this information to all school district administrators.

Recommendation 2

Distribute operating cost data for major functions and programs to similar school districts so that district officials can compare their costs with those of peer districts.

Status - Partially Implemented

Agency Action - While the Department continues to collect and disseminate raw expenditure data, it still does not analyze the expenditures on a per student basis, categorize them by similar school district and distribute them to the school districts for their further use. Department officials pointed out to us that its Chapter 655 Report provides the percent of total expenditures represented by instruction, central administration, transportation and miscellaneous expenditures by school district, as was noted during our audit. In addition, some raw data is now available to the school districts on the Department's Internet Web site which presents all of the school districts' State Aid Output reports, grouped by county. Also, the annual Education Summary Report presents tables for revenue and expenditure comparisons. However, we note that the Department's use of all of this data remains primarily passive. The Department does not develop the data in such a way that would provide useful cost information to the school districts.

Auditors' Comments - The Department needs to take an active role in developing and distributing operating cost data for major functions and programs to similar school districts so that district officials can compare their costs with those of peer districts.

Recommendation 3

Place increased emphasis on improving the cost effectiveness of school districts' operations.

Status - Implemented

Agency Action - Since our prior audit report was issued, the Legislature enacted Section 215-c of the State Education Law in 1996. This legislation requires the Commissioner of Education to disseminate information to school district administrators, school board members and other interested parties on how cost-effective practices can be applied in school districts, individual schools and classrooms. This legislation also required that the Commissioner submit a report on cost-effectiveness practices to the Governor and the Legislature by January 1, 1998, and periodically thereafter.

To meet these requirements, the Department established the Commissioner's Advisory Subcommittee on Cost-Effectiveness. On January 1, 1998, the Department issued an initial report about its efforts to improve the cost-effectiveness of the State's public schools. This report discussed six recommendations for improving public schools' cost-effectiveness, as well as the Department's subsequent actions relating to this matter. For example, the first

recommendation addressed the need to create a culture of cost-effectiveness from the top. The report also acknowledged that the coordination of policy efforts regarding cost-effectiveness lies in the Department and that the knowledge base for specific improvements lies at the local school district level.

Recommendation 4

Unit managers should do risk assessments of their processes for reviewing data. The level of document review should be commensurate with the materiality and risk associated with the data being reviewed.

Status - Partially Implemented

Agency Action - For the 1997-98 claim year, the Department implemented a triage system for the attendance, building and transportation components of State Aid reviews. A complete audit triage system is under development for use in the 1998-99 State Aid year. The triage system uses automated parameter edits (i.e., reasonableness tests) built into the data collection software to identify categories requiring further review. The purpose of the triage system is to streamline the claims review process so that only problems are reviewed. Department managers estimate that this system has cut in half the amount of staff time previously devoted to such reviews.

Auditors' Comments - In addition to using parameter edits, the risk assessment processes should also consider factors cited in our prior report such as the Department's past experience with specific districts' claims, and any unique characteristics of particular districts that could increase or decrease claim risk.

Recommendation 5

Department managers should maintain statistics concerning the results of the reviews of information submitted by school districts and the Board of Cooperative Educational Services (BOCES). This data should be used to analyze the cost/benefit of these reviews and adjust them as necessary.

Status - Implemented

Agency Action - The Department currently maintains statistics concerning the results of the reviews of information submitted by school districts and BOCES. Among other things, triage reports indicate when districts do not pass certain program parameters. Summary reports are made available showing the results of reviews of information submitted by school districts and BOCES. The Department uses these statistics to refine its methodologies for reviewing and approving State Aid claims.

Recommendation 6

Perform analysis and comparisons of available data to assess the relative cost-effectiveness of functions/programs among school districts. Identify districts with functions/programs whose costs may be excessive and share such analysis with the districts.

Status - Partially Implemented

Agency Action - While the Department gathers significant amounts of cost data about school districts, it does not analyze this information to help school districts improve their operating economy and efficiency. Rather, the Department's use of school district operating data remains primarily passive. The Department issues operating reports as a resource for other parties to use at their discretion and believes that districts are ultimately responsible for identifying inefficient programs and implementing the necessary corrective actions.

Auditors' Comments - The Department should increase its efforts to analyze available data to obtain indicators of the relative cost-effectiveness of districts' non-instructional operations. By analyzing available data, Department staff could identify school districts or programs with higher than expected costs, and share this cost data with other Department units.

Recommendation 7

Department managers should consider using statistical sampling methodologies as alternatives to reviewing all documents submitted by school districts and BOCES.

Status - Implemented

Agency Action - The Department has taken steps to streamline the review of documents submitted by school districts and BOCES. As mentioned previously, the triage system tests certain attributes of State Aid claims for reasonableness based upon methodologies that are continually being refined by the Department. In addition, Department officials told us that they are further upgrading their computer systems to better enhance risk assessment by providing more complete statistical data for analysis purposes.

Recommendation 8

Improve computer capability so that school district and BOCES data can be submitted and reviewed electronically.

Status - Implemented

Agency Action - The Department has automated the submission of school district and BOCES data. In addition, the Department is further upgrading its State Aid System. According to

Department officials, the entire redesign will be completed early in the year 2000. Among other things, the new system is expected to: support a risk-based management system, support Office of the State Comptroller requirements for State Aid approval, establish a relational database that allows specific trend analysis, maintain eight years of claim data and support detailed trend analysis, and provide standard and user custom reporting.

Major contributors to this report were Karen Bogucki, Kevin Kissane, and Mark Ren.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report. We also thank the management and staff of the State Education Department for the courtesies and cooperation extended to our staff during this review.

Yours truly,

Jerry Barber
Audit Director

cc: Robert L. King