

FINANCIAL ANALYSIS OF HAWAI'I PUBLIC SCHOOLS

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INTRODUCTION

The analysis presented here is a frank, unvarnished look at the finances of the public schools of Hawai'i. Our purpose is to determine the costs and patterns of spending for public schools, including both DOE schools and charter schools in the State of Hawai'i for the 2002-2003 school year. This analysis attempts to capture 100% of the money that is spent on the public schools. We looked not only at spending by the Department of Education (DOE), but also at the spending by other state agencies on K-12 education. We accounted not only for spending on current operating costs, but also for spending to pay back money borrowed by the DOE and at spending on buildings and other capital projects. Our goal was to give the people of Hawai'i a summary of everything that is spent on K-12 education. The results of our analysis will likely be different from any previous report, due to this completeness.

We were assisted in our analysis by staff of various state offices and of the DOE. Superintendent Pat Hamamoto willingly gave us access to her staff. Not every person in her position would have acted in as open a manner.

Hawai'i's school district is a dependent rather than an independent district. In an independent district, the district has independent power to collect taxes from the public and pays all of its own expenses out of those tax revenues. In a dependent district like that in Hawai'i the school district is embedded in (dependent on) a larger state government system. The school district does not raise its own tax revenues, nor does it control all of its own spending. Much of the money spent on education in Hawai'i is in fact spent by state agencies that are completely separate from the Department of Education (DOE). As a result, no one person can be held accountable for the entirety of school spending.

We have reviewed all of the costs incurred in delivering public school education, including spending by the Department of Education (DOE) and by other state agencies

such as the Departments of Health, Budget and Finance, Human Resources Development, Accounting and General Services, Human Services, Transportation, and Attorney General, as well as other levels of government (federal, state, district and school). This report intends to answer the following questions:

1. What are the total costs of education in the State of Hawai'i, and how does Hawai'i compare to other states in total spending per student?
2. How much of the budget is controlled by the DOE central office (including complex areas), and how much is controlled by schools?
3. How much of the education budget is spent in classrooms, in schools but not in classrooms, or in area administration and central office administration?

This report concludes with several suggestions for improving the financial reporting on education by the DOE and the State. Appendix C details similar studies and recommendations from previous years, some dating to as early as 1994, when the State Auditor retained Dr. Cooper to advise it on ways to improve the reporting systems in the DOE.

The authors worked closely with the DOE and relied largely upon the data the department provided to them. As we worked with the DOE staff, together we found weaknesses in the ability of the department's information systems to identify some basic costs, to count accurately the number of teachers who work in classrooms and the number of central office DOE staff, and to access other basic financial information. These difficulties stem in part from old information systems that are in need of updating and in part from the fact that the DOE is not responsible for all the education accounts, as perhaps it should be. After we had given a copy of our draft report to the DOE staff, they produced in short order a new set of numbers, which we note in our report.

KEY FINDINGS:

FINDING 1: Hawai'i spends a total of \$10,422 per student, including facilities.

Tables 1 and 2 show the cost structure for the schools for the school year 2002-2003, counting both the funds in the DOE budget and spending on DOE schools incurred by other state agencies and other levels of government. Tables 1 and 2 include all costs, including operating costs for salaries, books, teacher training, and other daily costs, as well as capital costs for school buildings and other facilities and capital equipment. Keep in mind that if other state agencies did not perform these functions for the public schools, the DOE would require that much more money to carry out these necessary activities. This separation of spending authority may lead to some duplication and inefficiency as well as to a loss of clear accountability.

We found that total spending on all education-related functions and activities by all state agencies and levels of government was \$1.905 billion or \$10,422 per student, based on 182,798 total students in both DOE and charter schools in the state. (See Appendix A for a breakout of types of schools and their enrollments).

Table 1: Total Spending on Education, 2002-2003

(N=182,798 students)

| | Spending | Percent of Total | Spending Per Student |
|---------------------------------|------------------------|-------------------------|-----------------------------|
| DOE Costs | \$1,489,438,190 | 78.2% | \$8,148 |
| Other Agency Costs | \$ 415,756,850 | 21.8% | \$2,274 |
| Total Education Spending | \$1,905,195,040 | 100% | \$10,422 |

Of the \$10,422 per student spent on primary and secondary education in Hawai'i, the Department of Education (DOE) accounted for 78.2%, and \$415.8 million, or 21.8% was spent by other state agencies on personnel, debt service, and capital items.

The division of financial responsibility between the DOE and other state agencies often leads to organizational confusion and lack of responsiveness to the needs of schools. For example, if a school has a building in need of repair and repainting, the principal seeks authorization from the appropriate DOE office. If the DOE approves the request, it then asks another state office, the Department of Accounting and General Services (DAGS), to perform the work. When the DAGS project manager arrives at the school, he may find additional structural work that must be performed to bring the building up to code. If that amount exceeds the approved budget for the job, DAGS must then go back to the DOE office to seek their concurrence, which will cause DOE to ask the principal for her concurrence. Upon receipt of concurrence, the DAGS program manager will then again go to the school site to prepare for the work to begin. The DOE, in this case, is essentially a middleman or relay point between the user (principal) and the service provider (DAGS). This system does not appear to serve the needs of schools very effectively and should be changed.

FINDING 2: DOE Central Office plus complex areas together spend 22.9% of the money.

Hawai'i has a centralized system of school finance. Because the State has only one school district, the relatively small total student population is under the control of a single very large school district, similar to the large urban systems in major cities on the mainland. Several people in the state legislature and in the DOE told us that the legislature, rather than the Board of Education, creates the budget of the DOE. This undermines the independence of the Board of Education and the State Superintendent and further centralizes the key decisions about the operation of schools. An additional negative result of this legislative involvement in the schools is that, we were told, some principals take their concerns over the heads of their complex area superintendents, the State Superintendent, and the Board of Education directly to key legislators who reportedly then order detailed changes to the budget and within the school system.

These problems have been recognized for many years. A November, 1974 CORE Report to the Governor described the problem in much the same terms that we have used here:

"Hawaii's one statewide school system is unique in the United States. Responsibility for public education is currently shared by the Legislature, the Executive, and the Board of Education. All these groups derive their authority from the State Constitution. Their respective responsibilities, however, are not always very clear."

"The Legislature has the primary power of budgeting for the Department of Education and, consequently, can influence or mandate Department of Education programs, policies, directions, activities very heavily. The Governor exercises this kind of power also with his ability to 'allocate' or not allocate funds and the Governor also wields other factors of administrative supremacy that can influence Department of Education operations. The public, therefore, is never sure just who is responsible for a particular decision affecting the Department of Education or who is to be held accountable for its policies."

"A discussion of two other rationales which have led to the 'board' approach for the lower education system occurs in the preamble to this section. Critical analysis of these two factors, i.e., providing for public input and keeping education out of politics, shows that the 'board' approach does not really accomplish meaningful public input and perhaps it is not such a good idea to try and keep education out of politics while obligating government to operate it."

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The current level of micro-management of the education budget at the State Capitol is unprecedented in our experience. We believe that it is enabled by and exists because of the single statewide school district. Every other state has local school boards that report not directly to elected state leaders but rather to a state Board of Education. The state Board of Education acts as a buffer to protect local school boards from improper

political interference from the state capitol. While education and politics must co-exist, they should not be commingled.

The administrative expense of the DOE is located within the central DOE staff and the complex area staffs. Although many of the central staff personnel work each day at school campuses rather than in central office buildings, they nonetheless work under the supervision of central office managers rather than under principals. They are therefore an element of central administrative control. Principals, given control over their budgets, might well choose to deploy those staff salaries in very different uses. The DOE does have a policy that permits a principal to “cash back” a position by special request to the central office and to redeploy that salary in the school. However, we have found that many principals have no idea what their total school budget is, a sure sign that principals do not really feel that they have control over their school budgets.

The DOE has a total of 23,790 permanent employees and estimated that it also employs 10,000 or so “casual hires”, who may be either full-time or part-time, for a total of 33,790 employees. Of these employees, 12,982 (Appendix B) are credentialed teachers who are licensed to have full charge of a classroom, though they may hold non-classroom jobs. The DOE first estimated that it has 9,600 classroom teachers, and later revised that figure to report that 11,222 are classroom teachers, including 1,890 special education teachers. Another 3,481 educational assistants work in classrooms assisting teachers, for a total of 14,703 classroom staff.

Study after study has shown that as organizations grow beyond a certain point, they inevitably spend a larger and larger percentage of their total resources on administration. The data in this table suggest that the DOE reached that point long ago. Even ignoring casual hires, there has been a large increase in the percentage of employees who are not teaching. Over the period from 1973-74 to 2002-2003, total DOE employment (not counting casual hires) rose by 96%, from 12,125 to 23,790. The 1973-74 figures are from the Governor’s Ad Hoc Commission on Operations,

Revenues and Expenditures, State of Hawaii, November 1974, and the 2002-2003 figures are from the Department of Education. Total DOE enrollment was 182,463 in 1970-71, with a temporary dip to 178,000 in 1973-74, and a return to 182,798 for the 2002-03 school year. Thus, total enrollment has remained essentially flat for the past thirty years. During that same time, the number of classroom teachers rose by 19%, principals and vice-principals increased by 51% (from 378 to 570), certificated support staff in schools increased by 100% (from 692 to 1,347), and the number of non-certificated staff increased by 237% (from 2,961 to 9,954). It appears to us that hiring in the DOE is out of control, quite literally. This is exactly what one would expect to find in a large, highly centralized system like that of Hawai'i.

The issue of Casual Hires deserves mention. According to the Director of the Hawaii State Department of Human Resource Development, the category known as Casual Hires is not widely used outside the DOE and lacks clear guidelines as to who should be so designated. We initially were told by the DOE this category was mostly made up of substitute teachers, but the information later provided to us indicates that a substantial number of the Casual Hires are not substitute teachers. A lack of transparency and reliable data, along with an accelerating percentage of employees engaged in non-core functions, are symptoms of organizations that have grown too big to utilize their resources effectively and efficiently.

After we had given a copy of our draft report to the DOE staff, they presented us with another set of revised figures. We did not have an opportunity to review these new numbers in order to verify them, but in fairness to the DOE we present a summary here. The latest DOE position is that it has 9,332 non-special education teachers, of whom 2,970 actually do not have responsibility for a classroom but rather play specialized support roles. As a result, according to the DOE, the remaining 6,362 classroom teachers have responsibility for the 180,159 regular education students, for an average class size of 28.3. In other words, of its 33,790 employees, of whom 12,982 are credentialed teachers, the DOE asserts that only 6,362, or 18.8% of all employees are teachers with responsibility for a classroom. It was a source of frustration to us to

receive similar revisions from the DOE every few days during our study. We strongly recommend that an independent state agency or special commission audit the figures of DOE and make recommendations for the improvement of its record-keeping and reporting systems.

What are the non-teaching positions in Hawai'i's public schools? Many of them are familiar positions, such as the 45 complex area school psychologists, 42 clinical psychologists, 281 behavioral specialists and 58 psychological examiners, or the 3,481 educational assistants who help in classrooms, the 1,363 school custodians and the 234 speech pathologists. Other positions may be less familiar to the public, including 228 school cooks, 183 school bakers, 208 school food services managers, 13 school lunch services supervisors, 2 food services managers, 55 food services drivers, and 887 cafeteria helpers who have civil service positions. There are 895 clerk typists, 16 clerk stenographers, 379 clerks, 290 school administrative services assistants, 36 pre-audit clerks, and 20 private secretaries. We are not in a position to evaluate the necessity of these positions, but principals surely are. Given the present reporting and management systems of the DOE, however, these positions are under the control of the central office, and principals are not even aware of the cost of these positions to their schools.

Table 2 presents the spending categories, showing that \$929.7 million (48.8%) is spent on services and staff attributed to the schools – though only a small fraction of this is actually under the control of principals, \$114.1 million (6.0%) is spent at the complex area level, and the central staff spent \$435.8 million (22.9%) either at the DOE or other State agencies. Adult education is less than 1% of total education spending.

One important caveat should be noted: the DOE Central Office spending figure of \$435,835,695 includes fringe benefits of \$244.8 million. If things were accounted for properly, 62.4% of fringe benefits (\$929 million divided by \$1.489 billion in Table 2) should be allocated to the schools, with 36.9% allocated to the DOE central office and complex areas, and 0.7% to adult education. Due to the limitations of their information systems, the DOE staff allocates 100% of fringe benefits to “DOE Central Office”

spending, which results in an overstatement of that spending and an understatement of school site spending. We have corrected for that by adding the pro-rata share of benefits to the spending on school and classroom personnel and deducting that amount from the spending at the central office level.

Table 2: Breakout of DOE and Other Agency Costs, 2002-2003

(N=182,798 students)

| Spending Unit | Spending | Percent of Total | Spending per Student |
|-------------------------------|------------------------|-------------------------|-----------------------------|
| Schools | \$929,726,652 | 48.8% | \$5,086 |
| Complex Areas | \$114,082,097 | 6.0% | \$624 |
| DOE Central Office | \$435,835,695 | 22.9% | \$2,384 |
| Adult Education | \$9,793,746 | 0.5% | \$54 |
| TOTAL DOE SPENDING | \$1,489,438,190 | 78.2% | \$8,148 |
| Capital Expenditures | \$234,036,476 | 12.3% | \$1,280 |
| Debt Service | \$122,313,251 | 6.4% | \$669 |
| Other State agencies | \$54,634,711 | 2.9% | \$299 |
| Spending by counties | \$4,772,412 | 0.2% | \$26 |
| TOTAL NON-DOE SPENDING | \$415,756,850 | 21.8% | \$2,274 |
| TOTAL OF ALL SPENDING | \$1,905,195,040 | 100.0% | \$10,422 |

Total spending per student at \$10,422 is adequate to provide an excellent education for every child in the State. Capital expenditures of \$1,280 per student are similar to spending in other states that have similarly high costs of living, such as New York, California, and Illinois. If spending at this level is properly managed, the result should be school buildings that are well maintained, with an ample supply of new schools in areas with rapid population growth. Charter schools do not receive an allocation of facilities money, though they have identical needs to provide school buildings and other capital facilities and, we believe, should receive a per-student facilities allocation.

In a separate study, we found that among the 114 private schools in Hawai'i, the median tuition in 2002-03 was \$4,675, less than half of what the public schools spend

(this study excluded the Kamehameha Schools, due to their very low tuition). Ninety-seven of the private schools in the state -- the vast majority -- have annual tuitions of \$8,500 or less. Private schools must cover all of their operating costs, debt service, and capital expenditures out of their tuitions plus donations, which typically amount to 15% of the private school's budget. Most of these schools have negligible endowments, although a very few such as Punahou and Iolani have substantial endowments. Private schools also do not have special education students, while the 1,890 special education teachers account for 5.6% of the employees of the DOE. Private schools do not have to carry the expense of the large administrative bureaucracies of the DOE, and their very decentralized nature enables them to achieve cost savings in many other ways. While private schools are in many ways quite different from public schools, this simple analysis of private school tuitions may be a useful benchmark to some.

FINDING 3: 49 Cents of every education dollar reaches the classroom.

Using the Finance Analysis System of the DOE, we tracked resources from the State to the schools, concentrating on how much reached the school and the classroom. This analysis necessarily arrives at spending estimates that cannot be compared to the other data that we have reported above, due to restrictions in the DOE budgeting systems.

The method used by the DOE attributes to the school much of the spending that is actually controlled by the complex area or central office, on the argument that this spending is actually for the benefit of schools. This analysis reveals that while \$8,036 of operating spending (excluding debt service and capital spending) per student reached the school, only 42% of that amount reached the classroom for direct instruction and curricular materials (texts, workbooks, supplies). If, in addition, we attribute to the schools a pro-rata share of fringe benefits of \$106.5 then total classroom spending rises to \$714.3 million, or 49.3% of total operating spending. Table 3 presents the spending at schools that is in the classroom as well as the categories of school spending that is not in the classroom.

Table 3: Finance Analysis Systems (FAS) Model*
Amounts DOE Allocates to Expenditures at School, District and State Levels on
Behalf of Schools, 2002-2003 (N=180,159 -- excludes charter school students)

| | Total Spending | Percent of Total | Spending per Student |
|---------------------------------|------------------------|-------------------------|-----------------------------|
| Face-to-Face Teaching | \$562,416,343 | 38.9% | \$3,122 |
| Classroom Materials | \$45,435,085 | 3.1% | \$252 |
| TOTAL CLASSROOM SPENDING | \$607,851,428 | 42.0% | \$3,374 |
| Program Support | \$76,406,606 | 5.3% | \$424 |
| Student Support | \$227,841,316 | 15.7% | \$1,265 |
| Teacher Support | \$22,531,255 | 1.6% | \$125 |
| Leadership | \$81,567,511 | 5.6% | \$453 |
| Operations | \$174,355,193 | 12.0% | \$968 |
| Other Commitments | \$257,107,024 | 17.8% | \$1,427 |
| TOTAL FAS MODEL | \$1,447,660,333 | 100.0% | \$8,036 |

* The State Auditor has found that the DOE inaccurately classifies expenditures by placing entire program IDs into functional categories without breaking out expenditures spent at the school, spent at an administrative level on behalf of a school, and the amount spent on purely administrative functions. The Auditor provided examples where these practices over-represented expenditures at the school level -- i.e., expenditures that should have been divided between the school, support and administrative levels were instead attributed solely to the school by the DOE. Despite this, the DOE declined to adopt the system utilized and recommended by the Auditor, choosing instead to utilize its own FAS. [*Fiscal Accountability Audit of the Department of Education: The Public and the Schools Need to Know the True Costs of Education*, Report No. 98-5].

Classroom Instruction includes classroom teachers' salaries and benefits plus classroom materials such as textbooks, workbooks, handouts, reading materials, and science materials. This category accounted for 49% of spending. Decentralized school districts tend to put a much higher percentage of total spending in the classroom, some as much as 65%. Hawai'i schools can aspire to reach that figure, which would mean spending \$5,224 per student in the classroom, an increase of \$1,850 per student on average. In a classroom of 25 students, that would mean an extra \$46,250 per year to spend on teacher salaries, coaches and tutors, materials, field trips, equipment, computers, and so on.

Program Support includes resources contributed by both the state/district and school

to supporting programs. This would include design of new programs by central office personnel or by outside consultants, training of teachers on these new programs, and materials.

Student Support is devoted to helping students outside the regular classroom with functions such as guidance, sports and clubs, media and libraries/librarians, nursing and other health-services.

Teacher Support goes for staff help, travel to professional conferences, in-service training and costs to cover classes while teachers are trained.

Leadership includes the salaries of all management staff, as well as support staff such as secretaries and other aides in the office; also included are the costs of operating these offices (mailing, copying, phones).

Operations are the expenses of maintaining the schools and other buildings, lights and other utilities, and upkeep. This category does not include capital outlays for new buildings and facilities.

Other Commitments includes a range of costs associated with insurance, liabilities and other fines and fees, risk management, as well as costs associated with out of district programs.

FINDING 4: DOE'S financial management system does not track fringe benefits to the school.

The DOE apparently does not match fringe benefits along with salaries to each employee, making it difficult to determine how much personnel (teachers, administrators, custodians, counselors, librarians, aides) actually cost since benefits average about 30% of salary. Hence, a teacher being paid \$60,000 in salary is costing closer to \$78,000 when benefits costs are attached. It is difficult for school system

officials as well as for the public to know how much is actually being spent in schools or elsewhere within the DOE as a result.

Because the DOE information systems are not capable of producing data on the number of non-teaching personnel, it is difficult to trace resources to schools, complexes, and state agencies. Furthermore, these information systems cannot determine how many teachers on the payroll are engaged in non-teaching tasks such as curriculum design, staff development, or administration. Finally, it is important at each school to separate regular education costs from special education costs, in order to determine whether special education services are actually being delivered to students.

The total DOE benefits package is \$244.8 million, which represents 16.4% of total DOE operating spending. Health benefits are by far the largest portion, amounting to over 47% of benefits (\$116 million), with pension next at 25.3% (\$62 million), social security at 23% (\$56 million), and “compensation”, the lowest at 4.5% or nearly \$11 million.

FINDING 5: Hawai'i schools rank #14 among the states in spending per student.

Table 4 is the ranking of the states in 2001-2002, which places Hawai'i at 15th (with District of Columbia included) and 14th when only the 50 states are considered -- in the top one-third of the states in per-student spending. We were not able to use data from the 2002-2003 school year for this comparison, because data for the fifty states are not yet available on the data bank of the National Center for Education Statistics (NCES). However, we do not believe that Hawai'i's ranking has changed over the past year. The total per-student figure of \$8,361 does not match the other total per-student figures in this report because it is from a different school year, 2001-2002. All states were calculated on the same basis, including only operating costs, and excluding debt service and capital expense. The NCES database simply reports the per-student spending that is submitted to it by each state.

Table 5: Rank Order of Fifty States and District of Columbia: Per Pupil Spending, 2001-2002 (NCES data bank).

Per Pupil Spending

| | | |
|----------------|-----------------|----------|
| 1 | DC | \$13,455 |
| 2 | NJ | \$12,027 |
| 3 | NY | \$11,326 |
| 4 | CT | \$10,897 |
| 5 | MA | \$10,351 |
| 6 | RI | \$ 9,605 |
| 7 | DE | \$ 9,370 |
| 8 | VT | \$ 9,071 |
| 9 | WI | \$ 9,035 |
| 10 | IN | \$ 8,711 |
| 11 | MD | \$ 8,673 |
| 12 | MN | \$ 8,636 |
| 13 | PA | \$ 8,618 |
| 14 | MI | \$ 8,492 |
| 15th HI | \$ 8,361 | |
| 16 | AK | \$ 8,305 |
| 17 | ME | \$ 8,240 |
| 18 | WY | \$ 8,161 |
| 19 | OH | \$ 8,042 |
| 20 | GA | \$ 7,923 |
| 21 | VA | \$ 7,807 |
| 22 | IA | \$ 7,687 |
| 23 | MT | \$ 7,658 |
| 24 | NH | \$ 7,646 |
| 25 | CA | \$ 7,633 |
| 26 | IL | \$ 7,436 |
| 27 | NE | \$ 7,395 |
| 28 | SC | \$ 7,364 |
| 29 | KS | \$ 7,351 |
| 30 | WA | \$ 7,331 |
| 31 | WV | \$ 7,267 |
| 32 | OR | \$ 7,263 |
| 33 | MO | \$ 7,085 |
| 34 | NC | \$ 7,055 |
| 35 | CO | \$ 6,969 |
| 36 | TX | \$ 6,954 |
| 37 | FL | \$ 6,951 |
| 38 | NV | \$ 6,666 |
| 39 | NM | \$ 6,403 |
| 40 | KY | \$ 6,351 |

| | | |
|----|----|----------|
| 41 | ND | \$ 6,255 |
| 42 | AZ | \$ 6,239 |
| 43 | SD | \$ 6,095 |
| 44 | AL | \$ 5,994 |
| 45 | LA | \$ 5,975 |
| 46 | ID | \$ 5,929 |
| 47 | AR | \$ 5,917 |
| 48 | OK | \$ 5,678 |
| 49 | TN | \$ 5,648 |
| 50 | UT | \$ 5,264 |
| 51 | MS | \$ 4,907 |

Some Caveats in Comparing Hawai’i to mainland school systems:

Independent vs. Dependent School Districts

Hawai’i is unique in some very important ways. First, it is a single-district state, with no elected local school boards, no local taxing power for schools, and no locally appointed superintendents. The use of state general tax revenues rather than local property taxes to fund schools is also employed in some other states, and that approach can provide a more equitable allocation of funds to students. The one-district system, though, when combined with funding from the state legislature, results in a flow of funds that is opaque to most observers. Unlike the vast majority of school systems in America, Hawai’i’s schools are dependent on the State Capitol for funding and for policy direction. Hawaii is the only state that does not have local school boards.

When an independent school district has a legal suit, for example, the local district must hire the lawyers, pay the fees, and absorb any judgments against it. The voters know exactly what has been spent by the school district. In Hawai’i, the Attorney General’s budget handles these expenditures. Another example is that the Hawai’i State Department of Accounting and General Services (DAGS) pays for the payroll services for the DOE’s approximately 22,000 salaried employees and 10,000 casual hires. To make an accurate comparison between what Hawai’i is spending on public education *versus* the national average, we needed to include all of the public education expenses paid for by state and county, as well as by the DOE.

The staff of the DOE, as well as the principals, public school teachers, and other school employees of Hawai'i, appear to be as well qualified, knowledgeable, and devoted to their missions as any in the nation. However, these professionals are laboring under an antiquated accounting and organizational system that is overly centralized and too closely related to the state's elected officials to be effectively independent. As a result, the DOE appears to us to be sometimes disorganized, lacking the information needed to make sound decisions, and too often subjected to outside interference,.

Suggestions for Future Improvement in Reporting of Financial Data on Education

1. Better Data on Teachers: The first improvement in finance information would be a clearer, more accurate way of tracking teachers to their schools and classrooms, as well as the associated costs. The current DOE financial and personnel systems do not differentiate full-assigned, full-time teachers from those not in schools, or not teaching full time, and does not include benefits in these personnel costs for all reporting purposes.

2. Clearer Differentiation between Employees Working in Schools and Those

Not: There should be clearer information on where district and state education employees are working and what their functions are. Furthermore, the DOE personnel system does not know, or readily identify, the location of personnel. The DOE's practice in reporting expenditures is simply to allocate all expenditures to the school level, whether the function is a school, district or state function. For example, the Hawai'i School Expenditure Reporting System published by the DOE allocates all state and district expenditures, including the Board of Education and Superintendent's salary, to the school level on a per-pupil basis. Thus, the information that is given to parents, voters, and the media may be inaccurate or misleading.

The state needs a system that allows principals and other school managers to have information on both the actual numbers and the full-time equivalent numbers of people

who work at their school. The present system allocates to schools the costs of people (such as the superintendent) who actually do not work at the school. A principal cannot be held responsible for costs that she does not control, and she cannot manage her school at all if she does not know her true costs.

3. Clarify the Reporting of Administrative Staff Costs: Hawai'i's DOE cannot accurately account for its own expenditures or operations. For years people in Hawai'i have been arguing over the amount the Department of Education spends on administrative expenses. The DOE has repeatedly stated that its administrative expenditures are less than 3% of total DOE expenditures. This would be a low figure compared to other public school districts in the U.S. if it were accurate. The DOE was unable to demonstrate how this 3% could be arrived at using generally accepted reporting standards. We concluded that the administrative cost claim of 3% by the DOE cannot be justified.

4. Make Hawai'i Data Comparable to Other Districts and States: The public cannot compare DOE expenditures to other districts in the United States unless the DOE adds in the expenditures on behalf of public education by other state agencies. This should be done regularly so DOE staff and the public will have a truer picture of school finances in Hawaii.

Appendix A:

Size and Context of K-12 Education

Table A shows the number of schools, pupil enrollment, and total spending for the public and charter schools in Hawai'i for the 2002-2003 school year. Of the States' 284 public schools, about 91% are under the direct responsibility of the DOE and 9% are public charter schools (259 district versus 25 charter public schools). Total enrollment was 182,798 pupils in 2002-2003, of whom 98.6% were in DOE schools (180,159 pupils) and 1.4% (2,639 pupils) were in charter schools. With respect to school size, the 25 charter schools averaged 106 students each, while public schools had an average of 682 students.

Table A: Public and Charter School Numbers, Enrollment and Size, 2002-003

| School Type | Number of Schools | Enrollment | Average Size | Percent of Total |
|-------------------------------|--------------------------|-------------------|---------------------|-------------------------|
| DOE Public Schools | 259 | 180,159 | 695 | 98.6% |
| Charter Public Schools | 25 | 2,639 | 106 | 1.4% |
| Total Public Schools | 284 | 182,798 | 644 | 100% |

Appendix B:

Enrollment and Staff by Student Classification: Hawai'i DOE public schools teach 180,159 students, of whom 159,567 are not classified (88.6%), and 20,592 are classified as special education, (11.4%), right at the national average for special education students as a percent of the total. Regular education teachers number 9,332 Full-Time Equivalents (FTE) or 71.9%, with 1,890 FTE devoted to special education. These numbers of students have been stable for a long time. For example, in the 1970-71 school year, total enrollment was 182,463 (Page A-2 of CORE Report to the Governor, November 1974).

Table B below shows the teacher breakdown by the kinds of students they instruct.

Table B: Teacher Allocation by Student Type

| | Full-Time Equivalent Number | Percent |
|---|------------------------------------|----------------|
| Regular Education Classroom Teachers (estimated) | 9,332 | 71.9% |
| Special Education Teachers | 1,890 | 14.6% |
| Credentialed as Teachers, but not in Classrooms | 1,760 | 13.5% |
| Total FTE Number of Teachers (estimated) | 12,982 | 100% |

Appendix C:

Prior Critiques of DOE Accounting Systems. Dr. Bruce Cooper was first brought to Hawaii by the State Auditor, who sought his assistance in tracking public school expenditures on a state, district and school-by-school basis, as well as categorizing expenditures by certain administrative and instructional functions.

Since then, the Auditor has consistently relied upon InSite, a widely used accounting system for public schools created by Dr Cooper and Coopers & Lybrand, when performing audits of the DOE's financial reports.

In 1994, the Auditor introduced the DOE to the simple and inexpensive InSite accounting software which could have been used to track administrative and school level expenditures. [*The Feasibility of Applying the Micro-Financial Analysis Model to Expenditures for Public Education in Hawaii: What Reaches the Classroom?*] Report No. 94-6];

In 1995, the Auditor found that the DOE's reports of expenditures by function did not reliably identify how education dollars were being spent, and that the lack of management controls left the Auditor unable to verify the accuracy of state and district costs attributed to the schools. [*Status Report on Monitoring Fiscal Responsibility of the Department of Education*, Report No. 95-5];

Also in 1995, the Auditor conducted a case study of a single elementary school and found that the DOE lacked adequate state, district and other support-agency expenditure information to determine the operational costs of specific schools and programs [*Status Report on Monitoring Fiscal Accountability of the Department of Education: Case Study – Royal Elementary School*, Report No. 95-23];

In 1997, the Auditor found that school-level expenditure data for textbooks and other instructional materials was unreliable [*Fiscal Accountability in the Department of Education: How Accurate Are Textbook Costs?*, Report No. 97-1];

In 1998, the Auditor found that the DOE inaccurately classifies expenditures. The DOE practice is to lump entire program IDs into functional categories without breaking out expenditures spent at the school, spent at an administrative level on behalf of a school, and the amount spent on purely administrative functions. The Auditor found examples where these practices over-represented expenditures at the school level -- i.e., the actual expenditures should have been divided between school, support and administrative expenditures. The Auditor took the additional step of re-classifying the DOE program IDs and matching them to the InSite sub-functions and levels to illustrate how the DOE could more accurately report school, support and administrative functions. The Auditor's mapping and allocation schemes were developed after careful review of the DOE expenditure data and consultation with DOE staff. [*Fiscal Accountability Audit of the Department of Education: The Public and the Schools Need to Know the True Costs of Education*, Report No. 98-5].