

STRENGTHENING BUSINESS PRACTICES IN OREGON SCHOOLS

A Critique of Two Processes Designed to Identify and Disseminate Best Business Practices

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BACKGROUND

WITH AN INTENSE NATIONAL FOCUS ON improving student achievement, school officials across the US are on a constant lookout for better ways to do business and drive more dollars to the classroom. In a search for efficiencies, Texas, Pennsylvania, and Florida pioneered performance reviews of district business practices. In those states, outside reviewers visit with local officials, review documents, and issue findings on the effectiveness of various aspects of school enterprise. The scope and depth of the reviews varies from state to state.

In Oregon, two review processes have been launched. In Spring 2007, the Chalkboard Project contracted with the Oregon Association of School Business Officials (OASBO) to conduct reviews of school business operations in five districts. Contemporaneously, the Legislature created a District Best Business Practice Advisory Committee and authorized the Oregon Department of Education to contract with the Secretary of State to audit district business operations.

With a goal of informing ongoing policy development in the area, this issue paper seeks to answer the following questions:

What's the rationale behind an effort and investment in reviews of school business practices?

How have Oregon's two parallel efforts been implemented?

What have the processes found and have they been instructive to the reviewed districts?

What are the strengths and weaknesses of each approach?

And, how should policymakers proceed as they consider reauthorization of audits or reviews of best business practices?

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The potential scopes of the OASBO and Secretary of State work are similar. Each is limited to district *business operations*, including contracting, building construction, food services, financial management, and transportation. Both processes intentionally steer clear of reviews of instructional practice.

The depth of the reviews differs substantially. In its first project, the Secretary of State conducted a comprehensive *audit* of contracting practices at the Multnomah Education Service District. By contrast, the OASBO conducted much broader *reviews*. The OASBO processes did not attempt to meet formal auditing standards but addressed the full range of business activities in five districts.

This issue paper compares the processes and comments on their strengths and weaknesses. The paper concludes that reviews and audits have been valuable and should continue with a number of important recommended changes.

THE CASE FOR PERFORMANCE REVIEWS IN OREGON

During the past 15 years, a number of factors have converged and intensified the call for the fiscal accountability of Oregon's schools.

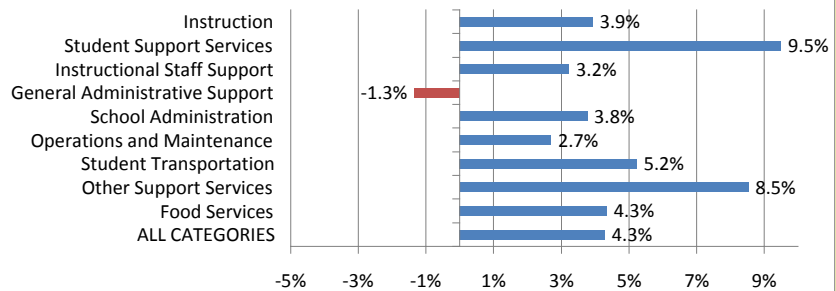
First came the significant change in how schools are funded. Until the early 1990s, local property taxes contributed two thirds of school funding, with the balance coming from state, federal and other sources. Since the passage of property tax limitations, the state assumed the primary

Oregon long-term spending trends beg different questions in different areas

During 1997-2006, Oregon's K-12 expenditures per student grew at an annual average rate of 4.3 percent—from \$5,920 to \$8,645. The growth differed considerably across the functional categories. Instructional spending grew at a rate—3.9 percent—close to the overall average. Student support services increased at the fastest rate and was driven primarily by new services provided to students with special needs.

Varying growth across the non-instructional-related categories deserves investigation. For example, the slower growth in operations and maintenance could reflect more efficient operations, deferred maintenance, or both; and reality differs from district to district. Also, the decline in general administrative support (superintendent office, school boards, negotiation staff) and above average growth in other support services (hiring, payroll, human resources) need attention. Increases in the latter category were a key impetus for business practice reviews.

Average Annual Growth in Spending per Student by Functional Category, Oregon, 1997-2006



responsibility for funding public K-12 education and, at the same time, equalized spending per student across the state. As major funding decisions transitioned from the local to statewide level, the demand for fiscal accountability—from policymakers and taxpayers—intensified.

The 1990s also ushered in increased national and state focus on achievement. Oregon implemented achievement standards in reading, math, writing and science in 1995, and federal law set

ambitious goals for schools deliver all students to those standards. The high-profile focus on achievement has pressed superintendents and school boards to deliver increasing shares of education dollars to the classroom. While the push for more instructional dollars is appropriate, it can be challenging to manage.

Some districts successfully wring efficiencies out of existing management, procurement, and maintenance processes and deliver a substantially similar level of service at the same cost. Other districts allow support systems, equipment, and buildings to atrophy. Although this decreases non-instructional spending in the short term, it likely creates long-lasting impacts and increases costs in the future.

In reality, the typical districts do a little of both.

In Oregon, the management challenge is exacerbated by the tiny scale of many school districts—most serve fewer than 1,000 students. That leaves superintendents—sometimes aided by business managers and other specialists—overseeing a wide array of business functions. In many districts, even the most competent and hard-working officials need outside assistance to find the appropriate balance between instructional and non-instructional expenditures. Helping managers strike that balance, and operate their districts as efficiently as possible, is the central purpose of the both the OASBO and Secretary of State efforts.

THE OASBO REVIEWS

The Process

In Spring 2007, the Chalkboard Project and OASBO launched a pilot project reviewing business operations practices in five Oregon school districts. Their goal was to develop a set of “best practices” that could be shared with districts throughout the state. Chalkboard provided OASBO with an \$87,000 grant to conduct the business practices reviews. With the grant resources, OASBO convened teams of current

and retired business officers and, in the initial stages, drew on the expertise of Pennsylvania’s Association of School Business Officials.

Prior to district visits, OASBO refined the scope of the business reviews and focused on the following areas:

- Financial planning, accounting, purchasing, and reporting
- Administration and communications
- Information and technology
- Human resources
- Maintenance and facilities
- Transportation
- Nutrition services
- Risk management

OASBO developed a detailed list of recommended practices in each area—drawn from similar lists developed by business officials in other states, particularly New Jersey. For example, the financial planning section queried about student enrollment forecasts, appropriate procedures to prepare and process purchase orders, and evidence of cooperative purchasing.

With the scope better defined, OASBO invited school districts to participate in the reviews and, by Fall 2007, had 14 volunteers under active consideration. In selecting the districts for review, OASBO sought some diversity in enrollment and geographic location. But perhaps more important, OASBO officials weighted the likelihood of active and open participation of district business officials. With these factors in mind, OASBO selected five districts: Greater Albany, Beaverton, Eugene 4J, Harney County SD #3, and Yoncalla. Student enrollment ranged from Yoncalla’s 341 to Beaverton’s 36,052.

The reviews started with a self-evaluation. District personnel assessed their performance against the detailed list of recommended practices in the eight areas. OASBO shared the

self-assessments with a review team prior to each site visit.

The site visits were generally comparable across districts. The review team consisted of 15 to 20 individuals—most either current or retired business officials. Reviewers were generally volunteers or on paid leave from a school district, another public agency, or private businesses. OASBO reimbursed team members for their travel expenses.

Review team members split into groups based on their topical expertise or interests. Typically, between two and four reviewers covered each area. The review team conducted on-site interviews over the course of two to three days. District interviewees varied by the size of the district but generally included the superintendent, business manager, department managers (where appropriate), clerks, school board members, principals, teachers, and school building secretaries. Interviews were conducted at the districts' central offices, individual schools and maintenance facilities.

Findings

The nature and findings of the reviews varied considerably depending on the size of the district. But looking across the districts—large and small—a common theme evolved. Spending on administration, business operations, and maintenance has few vocal advocates inside or outside the districts. Moreover, these administrative functions are not central to school improvement debates. School boards and parents are not typically engaged in the mechanics of business operations unless a system fails, and education is jeopardized.

The OASBO reviews brought business operations into the district's spotlight. Payroll, human service, procurement, transportation, and food service managers were given a rare opportunity to step out of day-to-day management and reflect on the strengths and weaknesses of their systems. Review team members—many who had operated

similar systems in other districts—shared experiences and expertise and exchanged best practices

Below is a sample of findings from the five reviews:

- **Beaverton.** The state's third largest district had long struggled to identify an equitable method of distributing resources to individual schools—given diverse student needs. The district's recently completed Resource Allocation Methodology (RAM) has drawn praise both inside and outside the central office. Educators described the RAM, which provides extra resources for highly mobile, low-income student, as transparent, equitable, and flexible.

Reviewers identified inefficiencies in the district's payroll and procurement processing. For example, the central office manually processes timesheets of hourly employees and uses a cumbersome paper process to track leave requests from teachers across the district. With modest expansions to its existing information technology infrastructure, the reviewers concluded, some administrative staff could be reassigned to more productive work.

- **Eugene 4J.** The district has a long tradition of site-based management, which has its advantages and challenges. On the plus side, schools have broad autonomy to plan and purchase their key supplies, materials, and services. Decisions are made close to the classroom.

However, the review suggests more accountability and central support should accompany that autonomy. Some school-based purchasers have little training and experience in procurement procedures and have been lax in accounting expenditures to appropriate codes and/or have spent resources before checking that budget authority exists. Schools have no well-documented procedures or guidelines for managing student-body funds.

School-based officials request payments on supplies and materials without providing the accounts payable office evidence of receipt.

- **Greater Albany.** The district implemented an innovative, cost-effective means of replacing student computers on a regular basis. By purchasing off-lease computers from Dell, the district has been able to standardize equipment, ensure an affordable replacement cycle, and relocate computer equipment where it is most needed.

Reviewers urged a revamp of the district's evaluation system for employee performance. Existing evaluative criteria are ambiguous, which can lead to errors, bias, and inconsistency in application.

- **Harney County School District #3 (Burns).** Reviewers commended the district's StRUT program (Students Recycling Used Technology), which reconditions computers decommissioned by nearby federal agencies, including the Bureau of Land Management. The district integrates the computers to its labs, which are maintained by the Harney County Education Service District.

The review team recommended an overhaul of the district's budget development and planning processes. The district needs to improve its method of calculating beginning fund balances and expedite programmatic adjustments when budget shortfalls materialize.

- **Yoncalla.** The small scale of the district's operations coupled with declining enrollment poses management and fiscal challenges in Yoncalla. Despite its size, the district has a well-developed teacher mentoring program, a popular food service program, and extracurricular transportation services coordinated with a neighboring district. Reviewers urged the district to reconsider an initiative to hire a full time superintendent and noted that a very lean central office is the tradeoff of remaining small and autonomous.

Conclusions and Recommendations

Bringing a spotlight to the district's core business functions was the strength of the OASBO reviews. The on-site interviews made clear business functions that reside in the shadow of instructional programs. While instruction will and should always dominate the attention of district leaders, the OASBO reviews provided a focused period to question, explore, and re-examine the goals and outcomes of its administrative, nutritional, transportation, and maintenance functions.

The OASBO process leveraged the expertise of a talented group of current and former business managers, complemented by some outside business perspectives. The reviews were ambitious in scope, covering the full range of non-instructional activities. Looking across the five reviews, the teams made useful findings in each of the topic areas.

But, the low-cost, volunteer model has its limitations. The recommendations and commendations lack hard, quantitative backup or rigor. The reviews have little, if any, comparative data that place the reviewed districts' operations or spending in the context of other districts with similar goals or organizational structures. In general, the OASBO approach was too light on pre-visit selection and analysis.

Going forward, the OASBO process would improve with the following changes:

- **Increase the resources devoted to each review.** OASBO conducted the reviews at an average cost below \$20,000. The reviews depended too heavily on volunteer time. While all the officials, and in some cases their employers, were generous in making time available, a process that relies exclusively on volunteers could atrophy over time. Moreover, an all-volunteer model is unlikely to produce data-rich reports that would be more useful to the reviewed districts.

In the future, the OASBO should pay stipends

to reviewers and request more analysis from them. Two to three reviewers could delve into budgets and district self-assessments well in advance of the site visits and “tee up” the key issues in each business area. Pre-visit analyses would summarize enrollment and per student spending trends in key administrative areas. Then, where feasible, the analyses would pull comparable data from districts inside and outside Oregon. For example, reviewers could compare maintenance expenditures per square foot of building space, meals served per hour, bus occupancy rates, and other common performance metrics.

Bringing more rigor to the reviews adds costs. At reasonable hourly rates, the existing OASBO reviews would have cost between \$30,000 and \$50,000 each to complete. Funding the reviews in that range, on a periodic basis for any given district, would generate more useful reports with benefits that would exceed the costs.

- **Select districts with more intention on goals of each review.** The OASBO process benefited from a reasonably strong demand for reviews. In selecting districts, OASBO had a number of implicit decision criteria and sought the input of review team members. If the process continues, OASBO should be much more explicit about what it is attempting to accomplish with each review. Some applicant districts may face stiff management and community challenges and be looking for immediate assistance to stabilize operations. In other cases, a district may have a practice or two that’s revolutionary and deserves documentation and dissemination. And yet other districts may simply want broad confirmation that business management is on the “right track.”

Going forward, the selection process should key off of a well-developed list of selection criteria that tie explicitly to broader goals of the reviews.

- **Tailor the scope of the reviews to the district’s interests and needs.** OASBO’s “eight-area” scope made sense for a pilot phase, but future reviews should adopt a market orientation and focus on the desired interests and needs of the district. One district may have particular concerns about the interactions of payroll processes and human resources while another struggles with complex student transportation needs. Districts should be able to self-identify the areas of the strongest interest for review. However, the OASBO reviewers should also be ready to strongly recommend reviews of additional areas or further technical assistance if pre-visit analyses suggest problems. By tailoring reviews to a subset of business areas, the cost of any given review would fall, which would liberate dollars and reviewers for other districts.
- **Draw reviewers from a range of professional backgrounds.** OASBO drew reviewers primarily—although not exclusively—from the ranks of former or current school district officials. Those reviewers offered years of experience and contributed the large majority of tangible findings in the OASBO reports. However, relying too heavily on current and former school officials would limit the diversity of backgrounds and perspectives on management. In the future, OASBO should continue to complement those officials with a corps of reviewers from the private sector. The presence of and recommendations from carefully selected, civic-minded industry leaders adds credibility to the process. Finding the right background for private reviewers is tricky. They need both topical expertise in the business systems that schools operate (e.g., food, transportation, payroll) and some understanding of unique conditions of the public school context. Finally, while it is essential to have participation from the private business sector, it is also vital to maintain an objective and open process. To that end, OASBO should

ensure private reviewers do not use the process to market their services and goods, unfairly gather information or, use the process in any way for personal gain.

- **Build in assistance with implementation of recommendations.** The reviews leave districts with a lengthy “to do” list that can be daunting to implement. The process would improve if a subset of the review team returned to help the district prioritize implementation and check in on progress.

THE SECRETARY OF STATE PROCESS

Process

In 2007, the Oregon legislature appropriated funds and authorized the Oregon Department of Education to contract with the Secretary of State to perform voluntary performance audits of the following business-related areas: transportation, food service, grounds maintenance, building and systems maintenance, purchasing and contracting, new construction, and financial practices. For each of the areas, audit criteria would be researched, reviewed and adopted by the District Best Business Practices Advisory Committee (DBBPAC).

During Fall 2007, the DBBPAC convened, and with the input of staff of Secretary of State and the ODE, began to develop audit criteria and related best business practices for each topical area. The committee started its work in the areas in which the Secretary of State had expertise through prior and ongoing audits of state agencies, universities and colleges: new construction, purchasing, and contracting. DBBPAC adopted audit criteria in those areas during early 2008. The Committee then turned to food service and completed its list of best practices and standards during Fall 2008. Audit standards and best practices are still outstanding for transportation,

grounds maintenance, building and systems maintenance, and financial management.

To date, the Secretary of State has completed one audit. Delivered in November 2008, the audit examined contracting practices of the Multnomah Education Service District (MESD).¹ The limited number of audits is due, in part, to the depth of the Secretary of State’s audit activity. Unlike the OASBO process, the Secretary of State adhered to generally acceptable auditing standards, which require a certain level of planning and document review before a finding could be made. Building an accepted evidence base for a formal audit requires considerably more interview and document review time. The Secretary of State’s auditors spent more than a month onsite, and the audit’s cost approached \$250,000.

Currently, the DBBPC and ODE are seeking school districts to volunteer for audits in the two other topical areas with developed best practices and audit standards: construction and food service.

Findings of the Existing Audit

During Summer and Fall 2008, the Secretary of State examined and tested dozens of small, intermediate, and large contracts issued by the MESD. Auditors judgmentally selected contracts—issued between July 1, 2006 and May 9, 2008—for goods and services, personal services, leases, and intergovernmental agreements. Each sampled contract was tested for compliance with applicable contracting laws, best practices, and MESD policies.

The auditors concluded that MESD procurement of short-term goods and services was generally appropriate. However, the auditors recommended changes to MESD’s contractor selection, contract development, and contract management processes. Specifically, the auditors found inconsistent evidence of competitive bidding processes, decentralized

¹ See <http://www.sos.state.or.us/audits/reports/full/2008/2008-33.pdf> for the full Secretary of State report.

contract management with inadequate oversight, and a lack of clear roles across responsible departments (*i.e.*, Legal Services, Business Services, Human Resources).

MESD officials agreed with the most of the auditors' findings, valued the recommendations, and invited the auditor back for a compliance test.

Conclusions and Recommendations

By MESD's account, the Secretary of State's work was competent, thorough, and constructive. Going forward, the key consideration for policymakers relates more to cost than to quality. At \$250,000 per audit, or any amount approaching that level, policymakers should demand clear and measurable benefits. That level of effort may be appropriate only when reviewing contracting policies of a relatively large district, like MESD, but simply wouldn't make sense for reviews of Oregon's numerous small districts or less consequential administrative functions.

The Secretary of State's process would improve with the following changes:

- **Scale the cost of audits to the expected benefits.** Again, the MESD audit may have been appropriately scaled given the district's size and level of contracting activity. But, the DBBPAC, ODE, and the Secretary of State need to carefully consider an audit's benefits before giving the green light to subsequent audits. With a topical area and district selected, the parties need to consider what the Secretary of State can deliver at different prices. Reducing the cost of audits may require shrinking DBBPAC's list of best practices and thereby reducing the number of questions that auditors ask and answer.

Time-consuming, in-depth audits could still be justified if the parties could clearly demonstrate that audit benefits extend beyond the audited district. In other words, one could argue that identification and dissemination of best practices "spills over" and changes the behavior

of other districts across the state. However, the burden of proof would be higher for benefits accruing to districts never visited by the Secretary of State. To start, DBBPAC might ask: what are the expected "spill over" effects of the MESD audit?

- **Reconsider whether in-depth performance audits make any sense for some business functions identified in HB 3141.** The fiscal benefits of a food-service audit are likely to be quite small regardless of where it's conducted. In most districts, food service functions are designed to be self-funded—or close to it. Consequently, any savings realized through audit-recommended changes would have a small impact on a district's overall operations. Likewise, the benefits of an in-depth grounds maintenance audit are unlikely to outweigh the costs. Where fiscal benefits appear small, the Legislature should reconsider the role of formal audits. The Legislature should also consider how HR 3141's performance audits on "financial practices" differ from the routine, annual financial audits of district finances that are already required by law.

FINDINGS AND RECOMMENDATIONS FOR FUTURE REVIEWS

The OASBO and Secretary of State business review processes have proven important but are imperfect in their current forms. The Secretary of State's first audit was thorough and educational but too costly to be sustained in multiple settings over time. OASBO's reviews had broader coverage, were delivered at considerably lower cost, but lacked some depth and detail. A combination of the models—each modified from their current forms—would be the best way to proceed.

The 2009 Legislature should consider the following as it amends HR 3141:

- **Continue assistance to school districts on business practices.** In the very tight fiscal times, the Legislature may be tempted to

eliminate or suspend the investigation and dissemination of best business practices. But the demand is high for review and technical advice in managing the business side of schools. Across the state, the intense focus on achievement and instruction forces districts to find efficiencies—particularly during an upcoming period of slow-growing or declining budgets. Finally, the need for ongoing review and assistance is particularly acute in Oregon given the very small scale of operations in many districts, which curbs their abilities to hire central staff with specialized expertise.

The six reviews conducted to date have identified different issues in different places—but all of the findings are important. If implemented, some of the recommendations could generate immediate savings (*e.g.*, increased and consistent use of competitive bidding). Others may cause administrative costs to rise slightly in the short run but result in more competently run operations over time (*e.g.*, technology investments to improve payroll processing).

- **Clarify how much depth is required in a formal performance *audit* and identify where they make sense and where they don't.** The term “audit,” which is used in HR 3141, has a very specific meaning and implies a certain minimum level of exploration, evidence assembly, and reporting. A comprehensive performance audit—like the one conducted for the MESD—makes sense for large business functions in sizable school districts. But it's hard to see how the in-depth approach could be cost-beneficial in Oregon's numerous tiny and small districts. Moreover, in-depth performance audits make less sense if applied to functions of small fiscal consequence (*e.g.*, food service).

The Legislature should revisit the HR 3141 language, consider its specific call for audits, and determine where they are appropriate and where they are not. The Secretary of State's audit division, in turn, should describe the

possible range in scopes and costs of audits and identify where their services are of highest and best use.

- **Expand ODE ability to negotiate the scope of business practice reviews and who conducts them.** The Legislature should expand the definition of ODE activities to include “reviews of business practices” in addition to audits. The term review is more flexible than an audit and would allow the process to cost-effectively extend to small districts.

Together with that change, the Legislature should authorize ODE to seek additional qualified public and private agencies to conduct reviews, including OASBO.

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