SUMMARY REPORT
School District Performance Audits

and

PERFORMANCE AUDIT REPORT
Doniphan County Education Cooperative

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
March 1982

82-45

Legislative Post Audit Committee
Legislative Division of Post Audit

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SUMMARY REPORT -- SCHOOL DISTRICT PERFORMANCE AUDITS

and

PERFORMANCE AUDIT REPORT -- DONIPHAN COUNTY EDUCATION COOPERATIVE

March 1, 1982

Legislative Division of Post Audit
State of Kansas
Topeka

FOREWORD

School districts in Kansas now receive more than a billion dollars each year. The districts administer a complex set of programs and services, ranging from providing education in the classroom to cooking meals, building and repairing buildings, running athletic programs, and busing students. In recent years, they have looked to the Legislature for an increasing share of the money to support these programs and services. State aid now provides as big a source of revenue for school districts Statewide as local property taxes do.

It is not surprising that as the amount of State aid to school districts has grown, so has legislative interest in how that money is spent. During its 1981 session, the Legislature called for a series of performance audits of school districts. Eight school districts, representing a cross-section of all districts in the State in terms of number of students, area, and location, were selected. They ranged from the Elwood district, which at 10 square miles and 260 students is one of the smallest in the State, to the Wichita district, which has some 42,000 students, about one student out of every ten in the State.

The Legislative Post Audit Committee, which selected the districts to be audited, also chose the issues to be addressed. One of the Committee's main concerns was to gain a clearer picture of how school districts budgeted and spent their money. The budget process itself is very complex, and the audits examined it in detail. The Committee also wanted an assessment of how efficiently the districts were operating. As a result, the audits concentrated on management practices and on such topics as the size of the staff and the use of school buildings. Detailed evaluation of the effectiveness of the districts' educational programs was not the focus of this set of audits.

Given the complexity of a school district's operations, it is understandable that inefficiency can occur. The auditors tried to address areas in which such inefficiency could be corrected without cutting back on necessary programs and services. Examining topics ranging from how well a district managed its cash flow to whether some of its schools could be consolidated to save money, the auditors found inefficient practices and operations that cost these eight districts nearly $1.9 million a year. Approximately $340,000 of this amount represents interest income that was lost in fiscal year 1981 because of poor investment practices. Most of the remainder represents savings that would occur if underutilized schools were closed and if administrative staff were reduced.

Because these audits addressed only part of the districts' programs, these amounts should not be taken as an indication of the maximum amount that might be saved. Also, the savings in these districts cannot be projected to the remainder of the State's 305 districts, but it seems clear that the potential savings through similar efficiencies would run into many millions of dollars.

An audit report was issued for each school district, and it contained specific recommendations for improvements in that district. This summary report deals with the broader implications of the series of audits; it makes recommendations for possible action that might be taken Statewide to address problems that appear to be similar in many districts. In brief, the recommendations fall into these main areas:

-- **Improving budget practices and procedures.** Districts must finance their operations through an extremely complicated budget process involving sizable carry-over balances and transfers from one fund to another. The complex process obscures an understanding of how financially healthy a district is, and it also can encourage unnecessary build-up of fund balances and unnecessary transfers from the General Fund. The audit recommends several steps can be taken to bring about improvements in this area.

-- **Improving investment practices and procedures.** Many other districts in the State can probably also do a better job in managing their money for investment. The audit recommends several steps that can be taken to help other districts earn more interest income.

-- **Encouraging more efficient use of staff and buildings.** The audit recommends a number of options for legislative consideration in this area, including financial incentives in State aid formulas and modified requirements for closing schools. The audit also recommends that the Department of Education take a more active role in reviewing school district operations and recommending improvements for more efficient operation.

The first four chapters of this summary report describe the major issues, findings, and recommendations of the eight school district audits. The fifth chapter, which begins on page 33, discusses the system-wide issues and presents the recommendations described above in greater detail. Part II of this audit report covers the Doniphan County Education Cooperative. When the Legislative Post Audit Committee selected the school districts, it also directed the Division to review the Cooperative, which provides special education services to one of the audited districts. Special education was one program of particular interest to members of the Committee.

This series of audits was a demanding project, involving the efforts of more than half the members of the Division's staff. The overtime required to complete these audits for legislative review was considerable, and the effort of many staff members in that regard is appreciated. Also greatly appreciated is the courtesy and cooperation of the school districts themselves.

Richard E. Brown

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Legislative Post Auditor

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PART ONE

SUMMARY REPORT — SCHOOL DISTRICT PERFORMANCE AUDITS

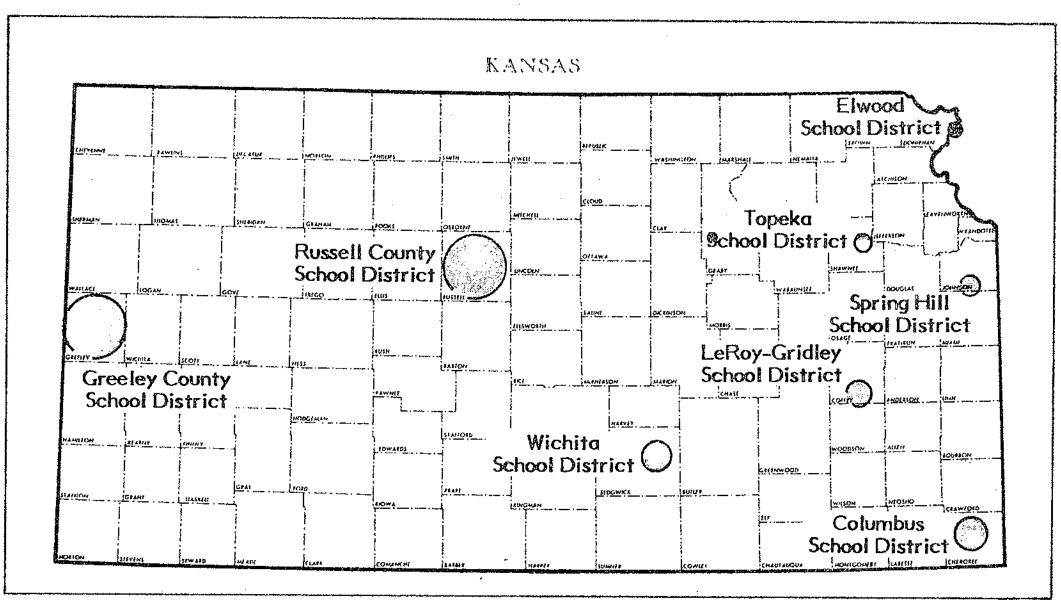
CHAPTER I

PURPOSE OF THE SCHOOL DISTRICT AUDITS

State aid to school districts in Kansas has risen dramatically in recent years. For fiscal year 1982, total State aid to school districts is estimated to be $525 million, an increase of 286 percent since the last major changes to the aid program in 1973. Because the State continues to shoulder an increasing portion of the total cost of elementary and secondary education, school finance remains one of the main issues facing the Kansas Legislature each year.

To assess the State's approach to aid for school districts, the 1981 Legislature created a Task Force on School Finance. The Task Force was directed to study such topics as the amount of State and local support for schools, State policies for granting aid and placing restraints on expenditures, and variations among districts in the amount of money spent per pupil. In conjunction with this study, the Legislature directed the Legislative Division of Post Audit to conduct audits of at least six school districts each year. These districts were to be selected by the Legislative Post Audit Committee in consultation with the State Board of Education.

At its meeting on May 29, 1981, the Legislative Post Audit Committee selected eight school districts for review. These eight districts are shown on the map below. In choosing these districts, the Committee



attempted to provide a cross-section of districts in the State. The factors on which the choices were based included the following:

— **Number of students.** The Committee selected districts from all three enrollment categories: small (fewer than 400 students), medium (400-1,600 students), and large (more than 1,600 students). Three small, three medium, and two large districts were selected. The eight districts selected ranged in enrollment from Elwood, with 260 full-time equivalent students during the 1980-1981 school year, to Wichita, with 42,140. The Elwood district had one school; Wichita had 99.

— **Location and size.** The Committee chose districts throughout the State. As the map shows, the districts were located from the western edge to the northeast and southeast corners of the State. Most of the districts were in the eastern half of the State, where most Kansans live. The Committee also picked districts of varying size, so that differences in such programs as transportation could be examined. The Elwood district, which covers only 10 square miles, was the smallest district audited; Greeley County, which covers 780 square miles, was the largest.

— **Amount of State support.** The Committee wanted to examine the operations of some districts that received considerable State aid and some that received very little. (Most State support is in the form of equalization aid, which is given in greater proportion to poor districts than to rich ones. Other forms of State support, such as categorical aid for transportation or special education programs, vary with such characteristics as the size of the district and the number of students.) Of the districts audited, Greeley County

District	Number of Students (1980-1981)	Number of Schools	Area (Square Miles)
Elwood	260	1	10
Greeley County	361	2	780
LeRoy-Gridley	399	4	207
Columbus	1,353	7	354
Russell County	1,457	10	875
Spring Hill	1,197	4	71
Topeka	15,137	35	35
Wichita	42,140	99	151

received no State equalization aid at all, while Elwood received enough State aid to constitute 70 percent of its General Fund money in fiscal year 1981. As a percentage of funds for all programs, State equalization and categorical aid ranged from lows of 8.5 and 16.0 percent in the Greeley and Russell districts to 49.7 and 50.9 percent in the Spring Hill and Elwood districts.

To complete this assignment before the start of the 1982 legislative session, the Division suspended work on a number of other projects and assigned more than half its staff to the school district audits. Audits of the three small districts were completed first and were reviewed by the Legislative Post Audit Committee and the Task Force on School Finance in October 1981. Audits of the three medium-sized districts were reviewed in early December, and audits of the two large districts were reviewed in early January. A separate report was issued for each district. Copies are available from the Division.

This summary report, written at the Committee's direction, draws together the most important findings and issues from the school district audits. Not every finding and recommendation from the eight reports is summarized here; for such detailed information, the individual reports should be consulted. This report, which presents a broader picture of what these eight audits say about school districts in Kansas, provides points of comparison and contrast on such matters as the financial condition of school districts, budgeting procedures, and use of school buildings. It cannot be assumed that the findings in the eight audits can be projected with statistical validity to all districts in the State, because the number of districts audited is too small and because the districts were not chosen at random. However, the Committee took pains to make sure that as many types of districts as possible were represented in the group of eight selected. This action increases the likelihood that the eight audits provide a representative cross-section of districts in the State.

Although the audits deal heavily with budget and financial information, they are completely different from the financial and compliance audits conducted in school districts each year under contracts with certified public accounting firms. With the Committee's approval, Legislative Post Audit decided against duplicating that effort. Instead, in keeping with legislative concerns, the audits concentrated on measures of economy, efficiency, and effectiveness. The audits were conducted under the provisions of the Legislative Post Audit Act.

Besides the summary of the eight school district audits, this report contains information about a special education cooperative. When the school districts were selected, the Legislative Post Audit Committee directed the staff to undertake a brief review of the Doniphan County Special Education Cooperative, a five-district cooperative to which the Elwood school district belongs. In the past few years, special education programs and expenditures have risen dramatically around the State. This review was intended to give the Legislature a view of the operations of a special education cooperative. Part II of the report contains that review.

Information in this report is organized into the same three areas as information in the individual school district audits: management of budget and financing, management of such resources as staff and facilities, and management of such programs as transportation and school lunches. The concluding chapter addresses alternatives the Legislature may wish to consider for improving management practices in the districts and for encouraging more efficient use of staff, facilities, and other resources.

CHAPTER II

MANAGEMENT OF BUDGET AND FINANCING

Introduction: Trends in Funding and Expenditures

The auditors examined the eight school districts' available funds and expenditures for a five-year period--fiscal years 1977 through 1981. The table below shows information on each district's available funds. Total funds available in fiscal year 1981 ranged from slightly more than $1 million in the Elwood district to more than $138 million in Wichita. During the five-year period, the rise in the total amount of funds available for each district's use was lowest in Columbus (27 percent) and highest in Spring Hill (87 percent). As the table shows, for two small districts and one medium-sized district, the rise was sharp (73 to 87 percent). For the five others, the rise was much more moderate (27 to 42 percent). Under the State's school finance law, the first three districts generally had authority to increase their spending at a higher rate than the five other districts. The rise in available funds reflects this greater spending authority.

As the table also shows, the districts varied considerably in their reliance on State aid. In three districts--Elwood, Spring Hill, and Columbus--State aid constituted more than 40 percent of the total amount of funds in fiscal year 1981. In contrast, State aid was only 8.5 percent of available funds in the Greeley County district and 16 percent in the Russell County district.

	In fiscal year 1981, the district had this much money available:	The 1981 amount was an increase of this much over fiscal year 1977:	In 1981, State and local funds represented this much of all money available: State	Local
Elwood	$ 1.0 million	83.0%	50.9%	22.0%
Greeley County	$ 1.7 million	41.5%	8.5%	59.2%
LeRoy-Gridley	$ 1.3 million	73.1%	25.4%	44.3%
Columbus	$ 3.8 million	26.9%	40.1%	39.6%
Russell County	$ 5.7 million	34.3%	16.0%	53.9%
Spring Hill	$ 3.6 million	87.4%	49.7%	26.4%
Topeka	$ 57.7 million	37.4%	31.4%	29.1%
Wichita	$138.7 million	33.7%	37.0%	31.7%

Only three districts relied more heavily on local property taxes than on State aid. The percentage of available funds provided by local and county taxes ranged from a high of 59.2 percent at Greeley to a low of 22.0 percent at Elwood. Most local revenue was in the form of property tax, and most of it went to the General Fund, which pays for salaries, instruction, and many other aspects of a district's operations. As the table below on tax rates shows, property tax rates to support the school district in fiscal year 1981 ranged from a high of 84.93 mills at Spring Hill to a low of 27.74 mills at LeRoy-Gridley. Over the five-year period, the increase in the school district levy ranged from 1.4 percent at Greeley to 44 percent at Elwood. In LeRoy-Gridley, the only district to show a drop in the school district levy, the rate dropped by 14.8 percent.

	The total mill levy to support the school district in fiscal year 1981 was this amount:	This levy was an increase (or decrease) of this much from fiscal year 1977:
Elwood	42.00 mills	44.0%
Greeley County	30.19 mills	1.4%
LeRoy-Gridley	27.74 mills	(14.8%)
Columbus	51.00 mills	20.2%
Russell County	44.11 mills	2.0%
Spring Hill	84.93 mills	17.0%
Topeka	60.95 mills	20.2%
Wichita	49.25 mills	4.7%

Actual property tax levies are not completely comparable from district to district, because counties assess property at different percentages of fair market value. If districts in two different counties have levies of 45 mills, but one county taxes at 10 percent of fair market value and the other taxes at eight percent, a homeowner in the first district would pay more tax. To compare property taxes in the districts more accurately, it is necessary to use an adjusted tax rate. The adjusted tax rate changes the mill levy to the level needed to produce current revenues if the county assessed property at 30 percent of fair market value. The table on the next page shows the actual and adjusted rates for each district's General Fund levy. When the adjusted rate is used, the ranking of the levies is considerably different. The Spring Hill district, for example, had an actual mill levy rate of 66.73 mills for its General Fund, making it the highest of the eight. Its adjusted rate, 14.93 mills, was only fifth. Topeka's actual mill levy of 56.00 mills was second highest; its adjusted rate of 18.55 was first. On an adjusted basis, levy rates in these eight districts ranged from a low of 8.90 mills at Greeley to a high of 18.55 mills at Topeka. The average adjusted General Fund levy for all districts in the State was 13.65 mills.

	The actual mill levy to support the General Fund in fiscal year 1981 was this amount:	The adjusted mill levy to support the General Fund in fiscal year 1981 was this amount:
Elwood	29.24 mills	15.43 mills
Greeley County	26.27 mills	8.90 mills
LeRoy-Gridley	23.30 mills	10.33 mills
Columbus	47.50 mills	12.71 mills
Russell County	42.11 mills	17.99 mills
Spring Hill	66.73 mills	14.93 mills
Topeka	56.00 mills	18.55 mills
Wichita	42.33 mills	15.82 mills

The taxable wealth of the districts varied greatly. In and of itself, this difference is of little consequence, because a small district in a rural setting would be expected to have a lower tax base than a large urban district such as Topeka or Wichita. However, if a district's tax base is very low, significant amounts of revenue cannot be raised locally without a substantial increase in tax rates. This is especially true if the district must raise large amounts of money to finance a project such as a new school. The Elwood school district, for example, is the smallest in the State at 10 square miles. Its assessed valuation, $5,763,625, is low because the land area is small and because there is little industry. Greeley County, by comparison, has about the same number of students but a land area of 780 square miles. Its assessed valuation, $33,655,902, is higher, and it is able to raise more money with a much smaller increase in the mill levy.

Expenditures, like the available funds, rose considerably during the five-year period. The table on the next page shows the amount each of the eight districts spent in fiscal year 1981 and the percentage by which those expenditures have increased since fiscal year 1977. Total expenditures ranged from $787,853 in Elwood to nearly $114 million in Wichita. During the five-year period, expenditures rose by 37.8 percent in Russell, the district with the lowest rate of increase, and by 83.9 percent in Spring Hill, the district with the highest. The three districts with the greatest increase in available funds (Spring Hill, Elwood, and LeRoy-Gridley) were also the districts with the greatest increases in expenditures.

Increases for particular programs in the districts varied widely from the average increase for all funds. In nearly every district, expenditures for the special education and transportation programs rose faster than the expenses for all funds. These increases reflect expanded special education programs and higher transportation costs. Other funds and programs did not follow a consistent pattern from district to district. General Fund expenditures, for example, were higher than the average increase for all funds in some districts, and lower in others.

	In fiscal year 1981, the district spent this much money:	The 1981 amount was an increase of this much over fiscal year 1977:	General Fund expenditures rose this much during the period:
Elwood	$ 0.8 million	77.2%	68.5%
Greeley County	$ 1.2 million	40.3%	35.2%
LeRoy-Gridley	$ 1.0 million	62.7%	54.5%
Columbus	$ 3.4 million	41.8%	39.9%
Russell County	$ 4.6 million	37.8%	39.4%
Spring Hill	$ 3.0 million	83.9%	81.6%
Topeka	$ 46.1 million	38.1%	32.0%
Wichita	$113.9 million	40.1%	33.7%

Financial Condition of the Districts

One question often asked during review of this financial information in the separate audits was, "Does this information say that the district is in good financial shape, or bad?" It is Legislative Post Audit's conclusion that, by and large, these districts are in sound financial shape. The reasons may vary somewhat from district to district, but the main ones are as follows:

— **Revenues have consistently met or exceeded budget expectations.** Unlike some governmental units that have set their budgets and then discovered that revenues were not as great as anticipated, these school districts have characteristically received revenues that met or exceeded the amount needed to finance the year's operations.

— **In most districts, carry-over balances are rising or remaining steady as a percentage of available funds.** In five of the eight districts, balances carried over to the next year represented a larger percentage of total funds available in fiscal year 1981 than they did in fiscal year 1977. In two districts, the percentage remained about the same. In only one of the eight districts (Columbus) did balances drop substantially. Districts need carry-over balances to meet part of the next fiscal year's expenditures and to provide a cushion against unforeseen expenses, but the size of the current carry-over compared with five years ago is another indication that the districts are in sound financial shape. (The issue of carry-over balances is discussed later in greater detail.)

— **By and large, the districts have been able to carry on programs of remodeling existing facilities and building new ones.** These kinds of expenditures are important, but they also are often the kinds of expenditures that are delayed or reduced when very tight financing forces a concentration on salaries and educational programs. Topeka and Wichita, the two largest districts, remodeled or built many new buildings over the five-year period. The two districts were able to finance most of these projects within their existing budget authority, meaning that voters did not have to approve a bond issue to finance them. For the most part, buildings and renovation programs in the other districts also appeared to be adequate.

-- **The districts have been able to operate optional programs or sustain operations that are not as efficient as they could be.** None of these eight districts was at the point of eliminating all but the basic and required educational services. In the two large districts, alternative schools, adventure centers, and day care programs were some of the optional programs offered. Four of the eight districts were operating more schools than necessary to accommodate all students in the district, and most were offering at least some transportation services to students who lived close enough to school that they did not have to receive transportation under State law. In short, local school boards appear to have enough financial flexibility to add optional programs or make decisions on a basis other than efficiency without imposing a severe strain on the budget.

These findings do not mean, however, that school districts will not experience substantial financial pressures in the future. There are currently several areas in which problems could occur:

-- Sudden cutbacks in federal funds can place a strain on other revenues. In most of the districts, the auditors found that school lunch programs will need more money to replace federal cutbacks even though lunch prices have already been raised to try to make up the difference.

-- In smaller districts, a major project such as building a new school may place severe strain on the district's tax base. High school students in the Columbus district now attend school in a building that essentially has been condemned, and replacing it poses a strain on the district's property holders. Attempts to pass a levy have so far been defeated. Spring Hill, a district that may face considerable expansion because it is now on the fringe of the Kansas City metropolitan area, may have to undergo a large tax increase to build new schools if the projected growth occurs.

-- As inflation and rising costs continue, school districts may find it increasingly difficult to maintain all of their current programs and operations and meet increasing needs in such areas as teacher salaries and utility costs. In such situations, districts will be faced with increased pressures either to secure additional revenue or to make programs and operations more efficient.

Carry-Over Balances

All eight districts had sizable amounts of money in carry-over balances. These balances represent a significant source of revenue for the coming year. In fiscal year 1981, beginning balances ranged from a low of nine percent of total available funds in Columbus to 27.1 percent of total available funds in Topeka.

In five of the eight districts, carry-over balances represented a greater share of total available funds in fiscal year 1981 than they did five years earlier, in fiscal year 1977. The greatest increases were in Greeley County, where balances rose from 7.7 percent of available funds in fiscal year 1977 to 26 percent in fiscal year 1981, and in LeRoy-Gridley, where the balances rose from 11.4 percent in fiscal year 1977 to 21.4 percent in fiscal year 1981. In two of the three remaining districts (Elwood and Russell County), the balances constituted about the same percentage of total funds available in both fiscal years. Only in Columbus did the balances drop as a percentage of total funds. Beginning balances in Columbus were 17.3 percent of total funds in fiscal year 1977 but only nine percent in fiscal year 1981.

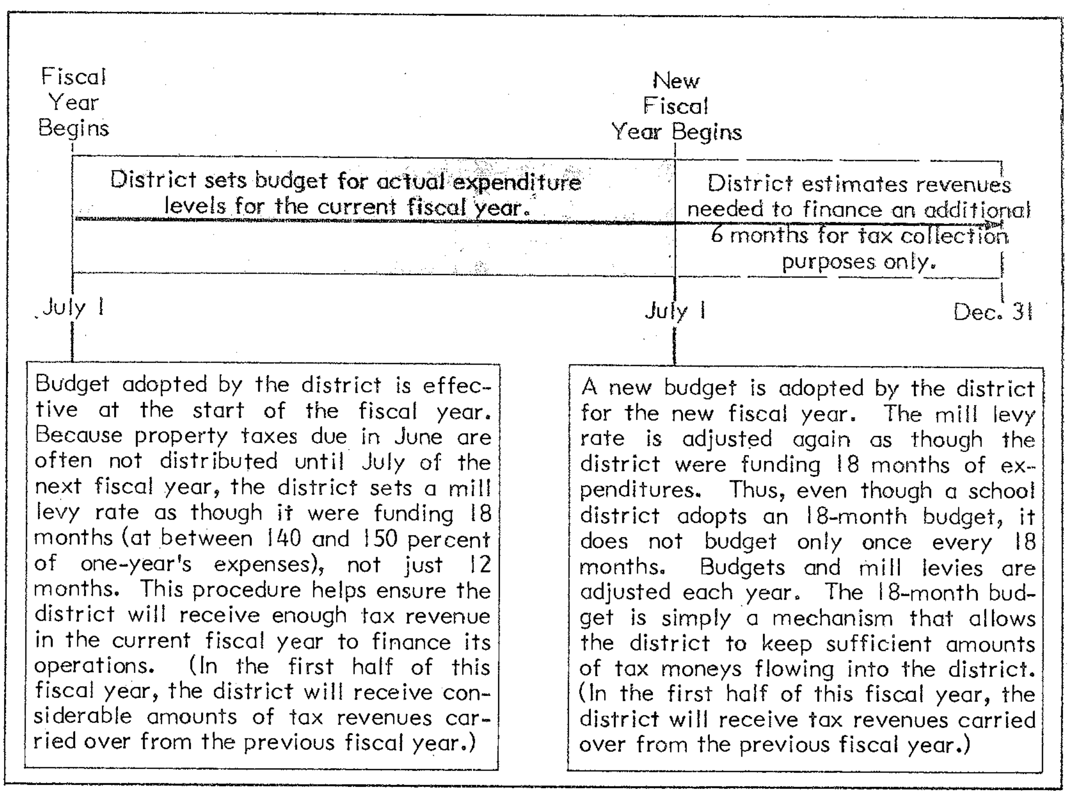
Districts need to carry over some money to support operations through the first months of the next fiscal year. Most districts receive less than half of their annual revenue in the first half of the fiscal year, and they need to make sure that the balances they carry over and the revenues they collect will be sufficient to carry them until revenues increase in the second half of the fiscal year. For this reason, the State requires districts to project their annual budgets six months beyond the end of the fiscal year. The mill levies are then set as if the entire 18 months are to be

	In fiscal year 1977, beginning balances constituted this amount of total available funds:	In fiscal year 1981, beginning balances constituted this amount of total available funds:
Elwood	19.8%	20.4%
Greeley County	7.7%	26.0%
LeRoy-Gridley	11.4%	21.4%
Columbus	17.3%	9.0%
Russell County	21.5%	21.5%
Spring Hill	11.5%	15.7%
Topeka	21.7%	27.1%
Wichita	17.7%	22.0%

financed. Because some of the tax revenues come in at the end of the fiscal year (and even after the end of the year), setting levies so high ensures that the district will receive enough tax revenue during the year to finance 12 months of operation when this tax revenue is combined with carry-over balances and other sources of funds. This procedure does not mean that schools develop budgets only every 18 months; the budgets are drawn up each year, and the mill levies are adjusted for each one.

The size of the balances, together with the fact that in most districts they are growing faster than the budget itself and representing a greater share of the total funds available, raises questions about whether the full amounts are necessary. In the last five audits--those covering the medium-sized and large districts--the auditors expanded their work in this area to determine how well the balances met their purpose of carrying districts through the low-revenue months of the following fiscal year.

In the Topeka and Wichita districts, the auditors first had to separate out large amounts of money in the balances that were intended for future construction. Because these amounts were not intended as a reserve to meet the next year's regular expenditures, it did not seem appropriate to count them in the analysis. In Topeka, balances totaling about $4.7 million were excluded because much of the amount had been accumulated for such



projects as renovation of schools and expansion of the technical-vocational school. In Wichita, balances totaling about $10.1 million were excluded because much of the amount had been accumulated for such projects as construction of a data processing facility and two elementary schools. These amounts were excluded from any further analysis of the fund balances.

After removing the construction money from consideration, the auditors analyzed the remaining balances to determine their low point at month-end during the fiscal year. For four of the five districts, their lowest fund balance was in December, the end of the first six months of the fiscal year. (For Wichita, the fifth district, December was the second lowest month.) The accompanying table shows the amount districts still had in reserve when their balances were drawn down to their lowest point at month-end. The reserve was equal to seven percent of the year's expenditures at Spring Hill, the district with the smallest percentage of reserve, and 24 percent at Russell, the district with the largest. This means that the carry-over balances were large enough that, together with the additional revenue received until the district's funds reached their lowest point, they provided a reserve cushion of between seven and 24 percent of the year's operating expenditures.

The question remains as to how much of a cushion is enough. The auditors found that a definitive answer would vary from year to year and from district to district, and conducting an analysis that was extensive enough to provide such a definitive answer in each district was beyond the amount of time available in these audits. As a general means of judging the balances, however, Legislative Post Audit adopted an assumption that a cushion of one month's expenditures at the low point of the year was a reasonable amount. One month's expenditures would be approximately 8.3 percent of a district's annual expenditures. On that basis, four districts appear to have reserves that are more than needed--Columbus (at 11

	When funds were at their lowest month-end point during fiscal year 1981, the district still had money available that was equal to this percentage of the year's expenditures:	If the district received no additional revenue, it theoretically had enough of a reserve at the low point to carry on operations for about this long:
Columbus	11%	1.3 months
Russell County	24%	2.8 months
Spring Hill	7%	3.6 weeks
Topeka (a)	13%	1.5 months
Wichita (a)	12%	1.5 months

(a) Does not include funds earmarked for future construction.

percent, or about a 1.3-month cushion), Wichita (at 12 percent, or about a 1.5-month cushion), Topeka (at 13 percent, about the same cushion), and Russell (at 24 percent, nearly a three-month cushion). If the reserves in these districts had been equal to the average of one month's expenditures, the amount in Columbus would have been reduced by about $84,000, the amount in Russell by about $700,000, the amount in Topeka by about $1.8 million, and the amount in Wichita by about $5.0 million. Reducing the reserve to those levels would reduce the need for beginning fund balances by the same amount.

The guideline of one month's expenditures is intended as a basis of comparison with actual funds, not as a standard that should be automatically applied as a strict rule. A case may be made that the amount should be higher or lower in some districts. It is worth noting that one district among those analyzed was able to do with less. The aim of Legislative Post Audit's analysis was to show whether the districts' carry-over balances provided enough additional money to carry them comfortably through the low point of the next fiscal year. The answer is that the balances appear to do so, and sometimes with a sizable amount to spare.

When the audits were reviewed, some districts raised considerable objections to the analysis of the carry-over balances. These districts said that Legislative Post Audit had not considered sufficiently the effect of the 18-month budget requirement. The districts said the entire amount of their balances was needed because of the 18-month budget requirement and because State law requires that each separate fund, not simply funds in the aggregate, have a positive balance at all times. Legislative Post Audit certainly acknowledges that carry-over balances are necessary, but it does not believe that State laws can or should be used as an automatic justification for the size of fund balances, particularly when the balances are growing faster than the budget or than other sources of funds. Under such an assumption, any balance, no matter how large, can be justified. The following points need to be kept in mind:

The 18-month budget requirement pertains only to the General Fund, not to special funds. Districts include special funds as part of their 18-month budgets, but the law does not require the district to budget special funds on an 18-month basis. Some special funds may well need carry-over balances, especially if a sizable amount of their revenue is not received until later in the fiscal year, but the auditors found that special funds often had an operating reserve that provided far more than one month's expenditures at its low point. If these balances are excessive, it is incorrect to say that State law requires them.

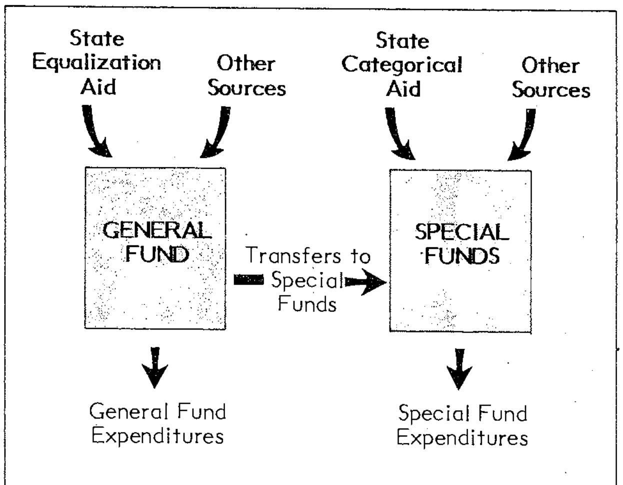
State law provides districts with the ability to reduce the size of their fund balances, but most of the districts that were audited did not use the law in this way. The 18-month budget requirement allows districts to set their mill levy to fund any amount between 140 and 150 percent of the annual budget. The closer the levy is set to provide 140 percent of the budget, the smaller the carry-over balances are likely to be; the closer the levy is set to 150 percent, the larger the balances are likely to be. The auditors found that most districts set their levy closer to the 150 percent figure than to 140 percent. This causes balances to grow.

In one of the districts audited--Wichita--the law was used to lower balances in fiscal year 1981. In that year, the district reduced its mill levy for its 18-month budget to the 145 percent level. This reduced taxes and dropped the General Fund balance by $5 million at the end of the fiscal year.

Five years earlier, the districts' carry-over balances represented a smaller portion of available funds. This smaller portion was apparently sufficient, and no major changes in laws or budget procedures have been made since then that would appear to require a larger portion of funds to be in carry-over balances.

The Mechanics of School District Budgets: General and Special Funds

Money coming into the district is accounted for in the General Fund or in one of the special funds. Money in special funds is spent for specific purposes, such as transportation, food service, capital outlay, special education, and vocational education. Most of a district's money goes into the General Fund, where it is used for such expenditures as instruction, administration, operation and maintenance of schools, and student activities. In the eight school districts, the amount of money in the General Fund for fiscal year 1981 ranged from $738,427 at Elwood to nearly $91 million at Wichita. As a percentage of total funds available to the district, the amount in the General Fund ranged from 58.7 percent at Topeka to 79.7 percent at Columbus.



State aid comes in two basic forms--equalization aid and categorical aid. Equalization aid is placed in the General Fund, where it can be spent for instruction and other expenses of the General Fund or transferred to special funds. Because many special funds already receive State categorical aid, transfers can increase the amount of State support for such programs as transportation, food service, and special education.

State law allows school districts to transfer moneys from their General Fund to special funds. These transfers are considered to be expenditures from the General Fund. In general, there are no restrictions on the amount that can be transferred. (Capital outlay is one exception; by law, no more than one or two percent of a General Fund budget can be transferred into the Capital Outlay Fund in any one year, depending on the size of the district.) These transfers allow a district to supplement the amount of local, State, federal, or other funds designated for certain purposes or programs.

School districts receive State categorical aid for some specific funds such as transportation and school lunches, but most State aid is equalization aid that goes into the General Fund. Because this equalization aid is intended to reduce the disparity between rich and poor districts, the amount varies greatly from district to district. The Greeley County district, for example, received no equalization aid at all in fiscal year 1981. State aid constituted a large portion of the General Fund in many of the other districts, ranging to as much as 61 percent of total General Fund moneys at Spring Hill and 70 percent at Elwood.

Exercising Legislative Review and Control of Budgets: Advantages of the Current System

Because so much State aid is involved in the General Fund, the auditors looked closely at the policies and practices regarding General Fund budgets and expenditures. They found that, as a means of exercising a degree of legislative review and control over school financing, the current process has several positive aspects. These are as follows:

The Legislature can review and control the level of growth in school districts' General Fund budgets. Under State law, the Legislature determines the amount that General Fund budgets will be allowed to grow. Over the past few years, the Legislature has generally authorized school districts to increase their budget per pupil by five to 15 percent each year. Districts with a lower budget per pupil may increase their budgets at a higher rate than districts with a higher budget per pupil.

If a school district takes in more General Fund revenue than projected, it has no authority to spend it. Once a General Fund budget--with its ceiling set by State law--is adopted, a district cannot spend more than that amount from the General Fund. If a district receives more General Fund revenue than expected, it cannot spend the additional amount. Instead, the money is carried over to the next fiscal year, when in theory it should reduce the need for property taxes that support the General Fund.

Within these budget restraints, the school district still has the flexibility to transfer money to special funds to meet particular needs. In fiscal years 1977-1981, the eight districts transferred considerable amounts to other funds. On the average, transfers to these funds were about nine percent of the districts' General Fund budget authority. The transfers went to a number of funds, including those for special education, transportation, vocational education, food service, and capital outlay.

The table below shows what percentage of total General Fund authority was spent for all purposes in the eight districts during fiscal years 1977-1981. It also shows what the percentage would be if transfers to special funds had not been made. Much of the time, these transfers were necessary to support the operation of the special fund programs. (In a number of instances, however, the transfers were too high or were not needed at all; these are discussed below under the negative aspects of the current system.)

Exercising Legislative Review and Control of Budgets: Disadvantages of the Current System

As a means of exercising legislative control and review, the current system also has several negative aspects. These are as follows:

Within the budget constraints set by the Legislature, there is little or no incentive to reduce budgets further. In fact, there is incentive to do the opposite--to keep budget authority at the maximum, whether that much budget authority is needed or not. A district's General Fund budget authority for the coming year is based on its authority for the year before. If a district were to reduce its General Fund budget below the maximum because it did not expect its expenditures to be that high, such a reduction would lessen its ability to raise budgets in subsequent years. The law does contain a provision to carry over unused budget authority, but even if a district uses that provision, its future budgets are less than they would have been if the district had budgeted at the maximum every year. As a

	During fiscal years 1977-1981, the district spent an average of this much of its General Fund budget each year:	Without transfers, the district would have spent this much of its General Fund budget each year:
Elwood	99%	86%
Greeley County	91%	88%
LeRoy-Gridley	98%	92%
Columbus	98%	87%
Russell County	97%	92%
Spring Hill	99%	88%
Topeka	99%	88%
Wichita	97%	86%

result, there is an incentive to budget at the maximum amount. All eight districts budgeted at the maximum each year with only a few minor exceptions. One of the eight districts, Greeley County, spent only an average of 91 percent of this amount--only 89 percent in the last three years. The other districts spent much closer to 100 percent of their maximum budgets, although their expenditures included at least some unneeded transfers to other funds.

Another way in which a school district's budget authority can be increased in subsequent years is through budget appeals. These appeals, made to the State Board of Tax Appeals, are to cover expenditures that will exceed a district's budget authority because the expenditures were not anticipated when the budget was approved. When an appeal is granted, the amount is added to the district's budget authority, and the computation of the following year's budget is based on the amended amount. The auditors found that most appeals granted by the Board of Tax Appeals did appear to be necessary, either in whole or in part, but at least one appeal appeared to be intended only to increase budget authority for its own sake, with an eye to increased budget authority in future years. This appeal, which was made by the Greeley County district, was granted by the Board, but none of the increased spending authority was necessary to meet expenditures.

The budget process can encourage transfers of more money than is necessary to keep special funds solvent. Much of the money transferred from the General Fund to special funds by these eight districts was needed, but a significant portion was not. In some cases, the amounts transferred were simply more than necessary. In other cases, transfers may have been necessary to alleviate a cash flow problem at some point during the year, but by the year's end, enough additional revenue had been received to make the transferred amount unnecessary. And in still other cases, whole transfers were not needed at all. Of the approximately $39.2 million transferred by the Wichita district, for example, a total of $8.6 million (22 percent) fell into one of these categories.

The transfer process is certainly needed to keep many special funds solvent, but it can create an incentive for districts to transfer General Fund moneys to special funds. Because special funds are not subject to the budget limitations the law places on the General Fund, moneys transferred to them can be used later. Moneys kept in the General Fund must be carried over and used to reduce the need for property tax revenues the following year. Current law allows districts to return unneeded transfers made to the food service, capital outlay, and transportation funds. However, the auditors found no instances in which these transfers were returned, even though transfers to these funds were found to be unnecessary in some districts. In LeRoy-Gridley, for example, transfers totalling $45,000 into the Food Service Fund over a three-year period were not needed.

There may be disagreement about just how much is necessary and proper for transfers that sustain programs and operations, but as long as the incentive is present for districts to avoid expenditure limitations by making transfers, the Legislature needs to review this issue closely. One possible improvement might be to expand the current authority to return unneeded transfers from the capital outlay, transportation, and food service funds to include other special funds as well. This authority could be coupled with a requirement that transferred moneys over and above a certain fund balance must be returned to the General Fund at the year's end.

The budget process does not allow the Legislature to have much control over the use of State equalization aid. Transfers from the General Fund to other funds include a portion of State aid. If State aid constitutes 30 percent of a district's General Fund, for example, any transfer to a special fund will, in effect, be 30 percent State money. Of the $57.6 million transferred by the eight districts in fiscal years 1977-1981, approximately $24.1 million, or 41.8 percent, was State money.

These transfers often went to programs that already receive State categorical aid. The additional amount of State aid involved may raise questions about whether the Legislature's intent in providing categorical funding is being met, especially because some of the transfers are for programs that go beyond legislative mandates. Several districts, for example, transport pupils who live within 2.5 miles of their school, and they support their transportation program in part through transfers from the General Fund. As a result, State equalization aid is helping to pay for a program the Legislature may not have had in mind as a recipient of State assistance. (State categorical aid is given only for students who live more than 2.5 miles away.) In a number of the districts audited, State equalization aid is also helping to subsidize the cost of student meals, another purpose the Legislature may not have had in mind.

It should be emphasized that in setting their budgets at the maximum and in transferring money from the General Fund to the special funds, the

	During fiscal years 1977-1981, the district transferred this amount from the General Fund to special funds:	Of the total amount transferred, this much was State aid:
Elwood	$ 299,730	$ 200,598
Greeley County	$ 144,000	$ -0-
LeRoy-Gridley	$ 191,364	$ 46,906
Columbus	$ 1,277,449	$ 516,160
Russell County	$ 731,000	$ 88,577
Spring Hill	$ 1,021,029	$ 585,209
Topeka	$14,802,046	$ 5,933,592
Wichita	$39,161,200	$16,743,439

districts are operating within the framework of the law. None of the actions described above are illegal, and Legislative Post Audit does not mean to suggest otherwise. These audits, however, have given a fuller picture of how the budget process is working than the Legislature may have had in the past. With this added information, the Legislature may wish to assess whether changes in the budget process are in order to more clearly meet its intent in providing aid to school districts.

Earning Interest on Idle Funds

School districts receive revenues they may not need to use for some time. Investment of this money represents a source of income that can reduce the need for taxes. Recent high interest rates on investments and steady increases in funds available for investment highlight the need for school districts to have effective investment practices.

Investment income was higher in all eight districts in fiscal year 1981 than it was in 1977. More important, for seven of the eight districts, investment income represented a higher portion of the district's total funds available in fiscal year 1981 than in fiscal year 1977. In the Wichita district, for example, the fiscal year 1977 interest of $2.5 million represented 2.4 percent of available funds that year, while the fiscal year 1981 interest of $4.7 million represented 3.4 percent of 1981's available funds. For these districts, then, interest earnings are growing faster than the general growth in revenues. Only the Spring Hill district saw a drop in the effect of its interest income, and that drop was small. Interest declined from 1.2 percent of total funds available in fiscal year 1977 to 1.1 percent in fiscal year 1981.

Auditors examined the cash management procedures at each of the districts, analyzing them to determine if the districts were doing the best job possible to earn interest. State law places certain restrictions on a school district's investments to ensure that funds are adequately protected. Districts may invest in temporary notes issued by the district, time deposit open accounts or certificates of deposit, shares or savings deposits in savings and loan institutions, repurchase agreements, and, if time deposit open accounts or certificates of deposits are not available, in U.S. Treasury Bills or Notes. State law also seeks to ensure that school districts receive a reasonable rate of return on their investments. If local institutions will not pay a rate of return equal to the average yield before taxes on 91-day U.S. Treasury Bills from local institutions, the law allows a district to take its investments elsewhere.

Auditors looked for several important parts of an effective investment program--obtaining revenue as soon as possible for investment, keeping balances in checking accounts to a minimum in order to invest more money at higher rates of return, and earning an interest rate in keeping with the 91-day Treasury Bill rate. They found that the Topeka district was the best of the eight in these management practices. Larger districts, which had staff that spent more time on investments, did a better job of investing their money. In general, however, the districts were found to be deficient in one or more of these areas, with the result that substantial amounts of interest income were lost. If the changes recommended in the audits had been in place during fiscal year 1981, the districts would have earned an additional $340,000 in interest. The effect of the changes can best be seen in the Russell County district, which could have increased its 1981 interest earnings of $132,919 by an additional $92,492--an increase of 70 percent.

Investment Practices Needing Improvement

The auditors found that districts should look for improvements in the following areas:

Ensuring that the district receives its share of interest earned on taxes collected and held by county treasurers. Local property taxes are collected by county treasurers and distributed to school districts and other taxing subdivisions on certain days of the year. In some districts, few such distributions were made. In Greeley County, for example, taxes were distributed to the district only three times a year. A new State law that recently took effect will help address this problem for some districts; it stipulates six dates during the year on which taxes are to be distributed.

Besides using this law, districts can take other steps to ensure that they receive their share of interest income. As one step, a district can request to have distributions made more often than the six dates specified in the law. Requesting more frequent distributions allows a district to place the money it does not need into investments more quickly. If this approach is not workable, a district can negotiate an agreement with the county to receive interest on property taxes the county has collected but has not yet distributed. The Topeka school district has such an agreement with Shawnee County. In the first 13 months of the agreement, the district received more than $220,000 in interest payments from the county.

The auditors found an additional problem in the Russell district. This district covers parts of several other counties besides Russell. State law requires other counties to distribute tax collections to the main county only three times a year. This is only half as many times as the main county must distribute taxes to the district under the new law. In addition, the other counties were not making their transfers on time. Because of the delays, the district sometimes did not receive its money until many months after the taxes were collected. To ensure that all counties distribute their tax collections on timely basis, the audit recommended that the Legislature consider amending State law by requiring all counties within a school district to distribute tax collections six times a year, either to the main county or directly to the school district.

Earning a higher rate of return. The auditors found several instances in which the rate of return on a district's investments was below the 91-day Treasury Bill rate set forth in State law as an investment standard. State law gives districts some bargaining power if local institutions will not provide such a rate of return; the district may take its money elsewhere to obtain a higher rate. Investments in several districts were not earning at this rate, suggesting that districts needed to be more diligent in obtaining a consistently high rate.

Lowering balances in checking accounts. Several districts kept much higher balances than necessary in their checking accounts. Even if a district has interest-bearing checking accounts, the rate of return is much lower than if the money were invested in certificates of deposit, time deposit open accounts, repurchase agreements, or other approved types of investment. In some cases, balances could be lowered by maintaining fewer checking accounts. The Columbus district, for example, maintained checking accounts in two banks and alternated the payroll and other payment activities between the accounts each month. This procedure increased the amount of money that had to be kept in checking accounts. The situations encountered by the auditors suggest that districts need to make a careful analysis of cash flow so that money that could be invested is not kept in checking accounts.

Earning interest on checking accounts. Some of the districts had interest-bearing checking accounts; others did not. In some cases, districts drew interest on their main checking account but not on other checking accounts, such as the account for student activity funds. The start of interest-bearing checking accounts in Kansas has apparently brought some confusion over whether a district's checking accounts may be eligible to receive interest. Officials at both the Kansas Bankers Association and the State's Division of Accounts and Reports have told Legislative Post Audit that federal regulations allow interest on any checking account for a governmental unit whose purpose is to operate schools. Districts that have not yet obtained interest-free checking on all accounts need to determine if additional money can be earned by obtaining them.

Other Financial Management Policies and Procedures

The auditors reviewed various aspects of purchasing policies and procedures to determine whether districts were in compliance with State laws, regulations, and guidelines and to determine whether they appeared to be buying items at economical prices. Prices were sometimes higher than the price paid by the State and sometimes lower. No problems were found that lead Legislative Post Audit to recommend any major changes in this area.

One problem that did surface in most of the districts was that they were not always purchasing items made by Kansas Industries for the Blind or the Division of Vocational Rehabilitation. The two agencies produce such items as pens, markers, and janitorial supplies. State law requires that such items be purchased from the agencies whenever possible, but the districts were generally purchasing the items from other suppliers. Some districts said they did so because of poor delivery schedules, inferior quality of the items, or insufficient quantity to justify the additional time and expense of not making a local purchase. The amounts in question were small, but as long as districts do not make such purchases from the agencies, they are not in compliance with State law.

The auditors also determined whether the school districts were complying with State laws requiring written contracts on all purchases over $1,000 and bids on purchases over $5,000. Several districts were not in compliance with these laws, and the individual audits recommended action to correct the problem. In their responses, some districts indicated that complying with the State requirements would make it more difficult for them to take advantage of some lower prices.

Another minor problem common to a number of districts was the maintenance of activity funds. School districts violated several guidelines set by the Division of Accounts and Reports for managing these funds; for example, several districts allowed individual funds to have deficit balances, a practice the guidelines do not allow. Some districts had also made errors in transferring money from the General Fund to these activity funds. Recommendations were made in each report for action to correct the problems.

State law requires that school districts each year file an audit report conducted by a licensed municipal accountant or a certified public accountant. The auditors reviewed these audits to ensure that they were conducted as often as required and that they met the basic audit requirements established by the Division of Accounts and Reports. All districts were in compliance with this law.

CHAPTER III

MANAGEMENT OF SCHOOL DISTRICT RESOURCES

In their review of school district resources, the auditors concentrated on two key elements of the districts--their staffs and their buildings. To determine whether the districts were managing these resources efficiently and effectively, the auditors relied heavily on comparisons with other districts of similar size. This approach provided a picture of how well each district was doing in comparison to others like it.

Staffing

Like most districts in Kansas, the majority of these eight districts were experiencing declines in enrollment and expected the declines to continue. Six districts had seen drops in full-time equivalent enrollment from the 1976-1977 to the 1980-1981 school years, ranging from a decline of five percent in the Elwood district to a decline of 14.4 percent in Topeka and 18.1 percent in Greeley. Enrollment rose only in LeRoy-Gridley (up five percent) and Spring Hill (up nine percent). Between the 1980-1981 and 1984-1985 school years, all districts but Spring Hill expect enrollment to decline. Estimates of further declines range from 3.2 percent and 3.6 percent at Elwood and LeRoy-Gridley to 10.8 percent at Topeka and Wichita and 11 percent at Greeley. Spring Hill, on the fringe of the metropolitan Kansas City area, is the only district predicting a higher enrollment. The district anticipates an enrollment increase of 13 percent if the metropolitan area continues to grow.

Four of the eight districts had more staff in the 1981-1982 school year than they did five years earlier. These districts included LeRoy-Gridley and Spring Hill, which were the two districts showing enrollment gains, and Elwood and Wichita. Spring Hill's staff grew by 21 percent and Elwood's and LeRoy-Gridley's by very small amounts. Wichita's growth occurred mainly because the district took over operation of the food service during the period. All six districts with enrollment declines showed drops in the number of teachers, though the decline was not as great as the drop in enrollment. In general, classroom teacher positions declined, as did administrative positions in the two large districts. The five-year period saw a large jump in the number of special education teachers, however, as a result of expanded special education programs Statewide.

The table on the next page shows how the eight districts compare with similar districts in their staffing in the 1980-1981 school year. The comparisons are expressed as ratios and cover several different categories:

	Pupil-Teacher Ratio		Teacher-Administrator Ratio		Pupil-Professional Personnel Ratio	
	District	Comparable Districts	District	Comparable Districts	District	Comparable Districts
Elwood	13.5:1	11.1:1	8.8:1	9.9:1	10.8:1	10.3:1
Greeley County	13.0:0	11.1:1	8.8:1	9.9:1	10.8:1	10.9:1
LeRoy-Gridley	12.2:1	11.1:1	10.9:1	9.9:1	10.7:1	11.2:1
Columbus	16.1:1	14.7:1	9.1:1	11.3:1	13.4:1	14.4:1
Russell County	11.8:1	14.7:1	15.2:1	11.3:1	10.2:1	14.7:1
Spring Hill	17.4:1	14.7:1	13.6:1	11.3:1	15.1:1	13.9:1
Topeka	19.0:1	19.6:1	10.6:1	12.5:1	15.5:1	16.4:1
Wichita	20.2:1	19.6:1	11.6:1	12.5:1	16.9:1	16.4:1

the ratio of pupils to teachers, the ratio of teachers to administrators, and the ratio of pupils to professional personnel. The pupil-teacher ratio includes special education students but not special education teachers. The professional personnel ratio includes all certified employees except special education teachers, and it also includes uncertified assistant superintendents and business managers. The "comparable districts" ratios are for districts in the same enrollment category.

Reducing the Size of Administrative Staffs

The ratios pointed to a higher number of administrators than average in three districts--Columbus, Wichita, and Topeka. Potential savings were greatest in the Topeka district, where about $240,000 in administrative costs would be saved each year if the district's administrative expenses were at the average for the four largest districts. The audits of Columbus, Wichita, and Topeka all recommended that administrative staff levels be reviewed with an eye toward reducing the number of administrators.

The auditors' analysis of administrative staffing, particularly in the large districts, was complicated by the fact that a number of positions that may well be considered as administrative are not counted as such when districts determine ratios. These include such positions as food service supervisors, building supervisors, accountants, computer programmers, and the like. In Wichita, the Director of Communications and the Director of Program Evaluation were both counted as secretary-clerical staff. The districts are not sidestepping State guidelines in not reporting such positions as administrative; the problem, if there is one, lies in the guidelines themselves. In addition to recommending that these districts should review their administrative staffing levels, Legislative Post Audit believes that the Department of Education should review its guidelines for reporting administrative positions. Under the present guidelines, it is difficult for an outside party such as the Legislature to gain a clear and concise view of a district's administrative staff. This problem, in turn, makes it more difficult for those responsible for funding educational programs to gain a clear picture of the program they are making decisions about.

Salaries

The accompanying table shows the average salary for teachers in each of the eight districts and the average for all districts of similar size. Five districts had average salaries higher than comparable districts, with Greeley and Spring Hill being the most above average. Elwood's average salary was even with the average for comparable districts, and LeRoy-Gridley's and Topeka's salaries were more than $1,000 less than the average for comparable schools. The auditors found that administrator's salaries also varied, with some districts above the average for comparable districts and others below. In general, however, no major conclusions stemmed from this information. Average salaries may be affected by many factors, including average length of time with the district.

	Average Salary for Teachers in District	Average Salary for Teachers in Comparable Districts
Elwood	$13,699	$13,701
Greeley County	$15,037	$13,701
LeRoy-Gridley	$12,458	$13,701
Columbus	$14,922	$14,497
Russell County	$14,707	$14,497
Spring Hill	$15,363	$14,497
Topeka	$14,961	$16,406
Wichita	$16,677	$16,406

Facilities

In each district, the auditors examined the occupancy rates of the buildings to determine how fully the schools were being used. Only one district was found to be actually or potentially short on space--the Spring Hill district, which currently has enough space but may not if future enrollments grow as predicted. In Spring Hill, an architectural consultant has examined growth trends and developed an ambitious 10-year, $11.1 million building program that would include two new schools and additions to several existing ones. The projections for growth and the need for new buildings both need to be continually examined in the next several years, so that the district neither overbuilds nor allows its facilities to become overcrowded.

In several districts, many of the school buildings are old. The age and condition of buildings appears to present a serious problem in only one district, however. The Columbus district's only high school is 65 years old and has a number of structural deficiencies. In 1981, a structural engineer examined the building at the insistence of the Fire Marshal's Office and found that the building should not be used much longer without major repairs. Major cracks have damaged the building's structural integrity and have already limited activities within the building. The Fire Marshal's Office will decide again in 1982 if the building can still be used. Bond issues to construct a new high school were defeated in 1976 and 1977.

Closing Underutilized School Buildings

In several districts, the auditors found that enrollments had dropped to the point that classes could be consolidated and school buildings could be closed. The audits recommended that local school boards consider closing buildings in four districts--LeRoy-Gridley, Russell, Topeka, and Wichita. Conservative estimates place the amount of money that could be saved through these closings at more than $1 million a year. Because each of the four districts is in a different situation with regard to its buildings, each one is discussed separately below.

Topeka. In Topeka, where a number of schools have already been closed in recent years, declining enrollments will again make it possible to consolidate schools. At present, the district's middle schools accommodate only grades seven and eight and are being used at only about 71 percent of capacity. By the fall of 1983, these schools will be able to accommodate the sixth grade as well, allowing the district to consolidate the remaining elementary grades in fewer buildings and to close older, less efficient schools. These shifts should allow the district to close up to six schools, saving more than $350,000 a year in operating and maintenance costs and in salaries for principals and support staff. Additional savings would occur if teaching positions could be eliminated rather than simply transferred to other buildings.

Wichita. Fourteen of the district's elementary schools, or nearly one-fifth of the total, have an average of fewer than 15 students per available classroom. After visiting several of these schools, the auditors identified three that could potentially be consolidated into two, saving about $120,000 a year. There may be similar possibilities for consolidating and closing other elementary schools as well.

Russell. The Russell County school district is the only one in its enrollment category that maintains as many as 10 schools. Declining enrollments in the district make it possible to close a number of outlying schools that are being operated inefficiently. The schools in these outlying areas have low pupil-teacher ratios--as low as 5.6 pupils per teacher at two high schools--and the schools in Russell have sufficient space to accommodate the students. In all, the auditors recommended closing five of the district's 10 schools, for an annual savings of about $544,000.

LeRoy-Gridley. This district is operating two high schools when one is probably sufficient. Enrollment at Gridley High School was only 54 in the 1980-1981 school year and is continuing to drop; its pupil-teacher ratio is 7:1. By closing Gridley High School and shifting students to LeRoy, the district can save about $77,700 a year.

Consolidating School Districts

The potential for saving money by closing individual schools exists mainly in larger school districts, which have a greater possibility for inefficient use of buildings because they have more schools to begin with. Most small districts have few schools--many have only one elementary school and one high school--and as a result there is little potential for saving money by closing schools. There is potential, however, for saving money by consolidating smaller school districts.

The auditors did not examine consolidation of school districts in depth, because the audits concentrated on evaluations of individual districts. Nonetheless, they had to raise the issue several times in the audits while examining ways in which buildings in smaller districts could be more fully used or examining ways in which future demand for space could be met. In Spring Hill, for example, the auditors looked at surrounding districts to determine if future construction could be avoided by transferring students to underutilized buildings in other districts. (For Spring Hill, the answer appears to be no.) In LeRoy-Gridley, the auditors looked at surrounding districts to determine if they had space to accommodate some or all of the district's high school students. (For LeRoy-Gridley, the answer was a possible yes; an adjoining district has a large new high school.) The auditors' preliminary looks at consolidation suggest that this may be a way to save significant amounts of money in the future.

The Elwood school district provides perhaps the best example of the possibilities for more efficient operation by combining school districts. This district is one of five in Doniphan County. Elwood, with an area of ten square miles, is the smallest district in the State, and the four others in the county average only 100 square miles, considerably less than the Statewide average of 268 square miles. There are already 58 districts in the State that are larger than the 412 square-mile area of the five districts together. During the 1980-1981 school year, the total number of students in the five districts was 1,740.

The five school districts in the county have 12 schools--six elementary schools, one middle school, and five high schools. All 12 schools are within 35 miles of each other. Four of the five high schools had fewer than 150 students and fewer than nine students per classroom. The auditors did not study the five districts in detail to determine whether the number of schools could be reduced, but a fairly cursory review suggested that such possibilities existed. Consolidation would eliminate the need for duplicate administrative structures in the various districts, and if classes could be made larger by combining schools with relatively low enrollments, consolidation could also bring about some savings in teacher salaries as well.

At present, there is little or no incentive for districts to examine the possibilities for consolidation. Although Elwood has a very low tax base because of its small size, it has been able to sustain itself largely through State aid, which constitutes over half the total funds available. (State funding accounts for a similar percentage of funds available in the combined budgets of the five districts in the county.) In the past five years, Elwood has increased its staff, raised its salaries considerably, and built a new school building--in short, it has taken a number of steps to improve its educational system. Taking these steps means, however, that a district like Elwood can build facilities that meet its needs virtually side by side with another district's facilities--the district adjoining Elwood, for example, has its schools only four miles from the Elwood School.

In their review of the small districts, the auditors found that significant savings could probably come only through several major steps--consolidation of administrative staffs, or consolidation of buildings. To consolidate administrative staffs, districts must be consolidated. To consolidate schools in most small districts, which may have only one or two schools, consolidation of districts is also required.

CHAPTER IV

MANAGEMENT OF SELECTED PROGRAMS

School districts operate many different kinds of programs, both for instruction itself and for support of that instructional effort. For example, curricula in a wide range of subjects, vocational education, special education, transportation, school lunches, athletics, student activities--these examples illustrate the diversity of programs provided. With only a limited amount of time to conduct these audits, Legislative Post Audit could not analyze more than a few such programs. In this round of audits, the Legislative Post Audit Committee directed that the time available for analyzing such programs be directed at transportation and food service. The Committee also wanted an assessment of special education, and it directed the auditors to review one special education cooperative, the Doniphan County Education Cooperative, as part of this set of audits. The report on the special education cooperative is Part II of this audit report; the sections below summarize the auditors' findings on the other programs.

Transportation

The eight districts varied widely in their transportation programs. The Elwood district, which comprises only 10 square miles, has no transportation program except for student activities, special education, and vocational education; the Greeley County district, in contrast, covers 780 square miles and provides daily bus transportation to about half its students. In fiscal year 1981, transportation expenditures ranged from $14,512 in Elwood to nearly $4.9 million in Wichita. The main findings reported in the audits with regard to transportation were as follows:

Comparisons with other districts are of limited use in assessing the efficiency of a district's transportation program. Many factors affect a district's transportation costs, and comparisons may be of limited value as a result. Even two districts that have a similar number of students and a similar size may not be very comparable if students in one district are concentrated in several towns and students in the other are spread more uniformly on farms. Greeley County, for example, had one of the highest transportation expenditures per pupil in the State, yet its program appeared to be run quite efficiently. There were few centers of population in the district; buses had to travel great distances and pick up many students on a farm-by-farm basis. Thus, a high expenditure per student may have little to do with how efficiently a transportation program is being run, and a low expenditure may be no indication that a district is operating as efficiently as possible.

Many districts are operating optional transportation programs, and State equalization aid is being used to help pay for them. State law basically provides that the district must transport students who live outside the city limits and more than 2.5 miles from school. Districts receive State categorical aid to help transport such students. Many of the districts were transporting students who did not have to be transported under the law. Some of these additional services involved little expense; others involved more. Here are examples of the additional transportation services offered:

-- In Columbus, students who lived within 2.5 miles of school were allowed to ride the bus if they waited at central pick-up points. The district did not re-route any buses to pick up these students; buses carrying students who lived further away stopped at these pick-up points as they approached the school. About one-third of the students who were bused lived within 2.5 miles of school.

-- In Greeley County, 55 students who lived within 2.5 miles were bused to school. Most of these students lived in a town about two miles away from school.

-- In Topeka, the district provided regular transportation to 1,935 students it did not have to transport. Under a policy adopted by the Board of Education, elementary students living more than one mile from school and middle school students living more than 1.5 miles from school are eligible for transportation. Other students who live on hazardous routes (crossing a busy highway, for example) are also eligible. In fiscal year 1981, regular and supplemental transportation services for these students cost the district about $394,000.

The transportation costs for such programs are often paid for partly out of transfers from the General Fund. In all the districts but Greeley County, these transfers included State equalization aid deposited in the General Fund. Thus, the State is indirectly paying for transportation services it may not have intended to support. In fiscal years 1977-1981, transfers to transportation funds in these districts included about $1.7 million in State equalization aid.

Several districts can take steps to provide transportation more economically by buying fewer or smaller buses, or by being more aggressive in contract negotiations with firms that provide bus services. The auditors found that buses in several districts were being operated at far less than capacity, suggesting that as the need occurs to replace buses, the districts should examine the possibilities of combining routes or buying smaller, more efficient buses. In the LeRoy-Gridley district, which contracts for its bus service, the auditors found that the contract is negotiated only if the next year's transportation budget will not accommodate the firm's requested price increase. If the transportation budget will cover the requested increase, no negotiation takes place, and no justification is offered for the increased amount.

Wichita's large transportation program has particular implications for State support. Wichita's transportation program has been designed to address a number of concerns, including racial desegregation, overcrowding, and transportation to alternative schools. Wichita's practice of busing students from their neighborhood schools to schools elsewhere in the district increases transportation costs. It also increases the amount of State aid, which is based on the actual number of students transported more than 2.5 miles. In fiscal year 1981, the district received more than $2 million in State categorical aid for transporting nearly 12,000 students who lived more than 2.5 miles from the school they attended. The auditors estimated that at least $900,000 of that amount was attributed to the "cross-busing" program. Given the large amount of money involved, it is important that the district be able to assess the effects these various goals of the transportation program have on costs. At present, the district does not keep adequate information to do so. The audit report recommended that better information be developed and maintained, and that the Legislature consider directing the Department of Education to review the program to ensure that State categorical aid is supporting it no more than necessary.

Food Service

Two main conclusions emerged from the auditors' study of food service programs in the eight districts: food service programs will need more money because of federal cutbacks, and school districts need to begin verifying information on applications for free and reduced price meals because of apparent abuses in the programs. With regard to the problem of federal cutbacks, the auditors found that all districts will have to find more money in the immediate future to keep their food service programs solvent. For some of the districts, the problems may begin as early as the 1981-1982 school year. All eight districts had raised their prices for meals at the start of the 1981-1982 school year to compensate for federal cuts, but the increases are unlikely to supply enough money to make up the difference and meet increased costs. Some districts have substantial balances in their food service funds and can use that money for a time, but all eight districts will soon be faced with having to provide additional revenue from one or more of these three sources--higher prices for meals, greater deposits of interest income, or larger transfers from the General Fund.

Many students in the districts receive free or reduced price meals. The federal government has established income levels that determine whether a family qualifies for such assistance. The table on the next page shows the number of students in each district that were receiving free or reduced price meals in fiscal year 1981. The percentage of the total

	Number of Students Receiving Free or Reduced Price Meals in Fiscal Year 1981	Percentage of All Students in the District Receiving Such Meals
Elwood	120	46%
LeRoy-Gridley	82(a)	21%
Greeley County	144	38%
Columbus	480	35%
Russell County	328	22%
Spring Hill	205	17%
Topeka	Not available (b)	Not available (b)
Wichita	12,916(c)	28%(c)

(a) Figure is for fiscal year 1982.
(b) Number of participants was not available, but in fiscal year 1981, the district served 1,095,053 free or reduced price meals--59 percent of all meals served.
(c) Number is as of September 1980. During fiscal year 1981, the district served 1,944,163 free or reduced price meals--57 percent of all meals served.

student body receiving such meals varied from a low of 17 percent in Spring Hill to a high of 46 percent in Elwood.

Auditors began reviewing applications for free and reduced price lunches during the audits of the small school districts, which they conducted first. It quickly became apparent that little or no verification of income was attempted, even when the information on the application was questionable. For audits of the large and medium-sized districts, arrangements were made to check the information reported on application forms with the income reported on tax returns. These tests, which were done for a sample of applications in each of the five districts, showed that a sizable number of families whose children were receiving free or reduced price lunches apparently were not eligible to participate in the program. Even excluding the "marginal" cases (those in which the income on tax returns was over the limit but still relatively close to it, and those for which it appeared that the income might have been significantly lower at the time of application than during the tax period), the percentage of families that received free and reduced price lunches while apparently not eligible ranged from nine percent in Spring Hill to 20 percent in Columbus. Topeka and Wichita had rates of 13 and 18 percent, respectively. In one of the extreme cases, the income on the tax forms was tens of thousands of dollars above the income on the application. The audits recommended that the districts begin programs of verifying income reported on applications, either routinely or on a spot-check basis.

CHAPTER V

ACTIONS THE STATE CAN TAKE TO IMPROVE ITS REVIEW OF SCHOOL DISTRICTS AND TO ENCOURAGE GREATER EFFICIENCY

The previous chapters have described what these audits found in the eight school districts. Many of the problems, as well as the changes that were recommended to deal with them, can be addressed by the districts themselves. Some of the problems, however, go beyond the individual districts. This chapter draws together these larger problems and discusses what steps can be taken to address them. The steps range from collecting more accurate information and providing better coordination of the State's educational policies to considering options for State aid that would encourage more efficient operation by the districts and perhaps lessen the demands for additional State aid.

Problem: Information Used by the State to Make Decisions Is Sometimes Inaccurate or Incomplete

Part of conducting an audit involves checking the accuracy of information rather than accepting it without verification. During these audits, the auditors examined information on a variety of reports submitted by the school districts to the Department of Education. They found that the information reported to the Department of Education sometimes contained mistakes. The mistakes ranged from reporting revenues inaccurately to reporting incorrect information for pupil-teacher ratios. These problems were not an indication of wrong-doing on the districts' part, and they did not have an effect on the amount of State aid going to the districts. However, the quality of information reported by school districts affects the quality of Statewide information from which decisions are made. In some cases, the districts acknowledged that they had made mistakes in filling out various reports and would need to pay closer attention to the accuracy of the information in the future. In other cases, the districts said part of the problem was unclear direction from the Department of Education.

In a related problem, the auditors found that the reporting requirements set forth by the Department of Education may not provide information that is meaningful to decision-makers. The auditors' analysis of administrative staffing in the large districts was complicated by the fact that a number of positions that may well be considered as administrative are not counted as such when administrative ratios are determined. These include such positions as food service supervisors, building supervisors, accountants, computer programmers, and the like. In Wichita, the Director of Communications and the Director of Program Evaluation were both counted as secretary-clerical staff. In all, the auditors identified at least 89 positions in Wichita and Topeka that were not counted as administrative staff but could be considered as such.

The main problem with the existing guidelines is that they do not contain clear direction as to whether certain kinds of positions are to be classified as administrative or not. As a result, it is difficult for an outside reviewer such as the Legislature to gain an accurate view of administrative staffing levels in larger districts. This problem, in turn, makes it more difficult for these responsible for funding educational programs to gain a clear understanding of the program they are making decisions about.

Recommendations

1. The Department of Education should improve its review of information submitted by school districts. It should take steps to emphasize the importance of the accuracy of information submitted, provide clear direction and guidance to the districts, and follow up to make sure that districts have understood instructions and have submitted accurate information.

2. The Department of Education should develop clearer guidelines for categorizing employees of school districts into such categories as administration and support. When this information is made available in reports, the Department should take steps to explain the kinds of employees that are included in each category. The Department should make its guidelines available to the Legislature for review.

Problem: School Districts Often Do Not Invest Their Idle Funds Effectively

As earlier sections of this report have described, better management and investment of idle funds would produce additional interest income in many of the eight school districts. In these eight districts alone, the auditors made recommendations that would have produced $340,000 more in interest earnings in fiscal year 1981 if they had been in effect. The recommendations included lowering balances in checking accounts, earning interest on checking accounts, earning a higher rate of interest on such investments as certificates of deposit, and ensuring that the districts receive their share of interest earned on taxes collected and held by the County Treasurer.

Legislative Post Audit has no reason to believe that other school districts around the State are significantly better in managing their money for investment. Poor investment policies and procedures not only lose money; they add to taxes, which must be raised to make up the lost amount. Given the substantial amounts of money involved, all districts need to be made aware that ineffective policies may be causing sizable amounts of interest income to be lost.

There appear to be at least two steps that can be taken to solve the problem. The first is to inform districts about good and bad investment and cash management practices--such matters as minimizing the amount of money in checking accounts, seeking high rates of return, and the like. Responsibility for such a Statewide effort rests with the Department of Education. In their reviews of the eight districts, the auditors did not come upon any indications that the Department had initiated significant action in this area.

The second step is to incorporate a review of investment practices as part of the regular financial audit of a school district. State law requires each school district to receive a financial audit annually by a licensed municipal accountant or a certified public accountant. The audit report is to be conducted in keeping with an audit program developed by the Division of Accounts and Reports. This audit is different from the one conducted by Legislative Post Audit; it examines receipts and expenditures to determine whether they are properly accounted for, but it does not usually address larger questions about the district's management of its resources. In reviewing the financial audit reports for these eight districts, Legislative Post Audit found little written evidence to suggest that the auditors who conducted the annual audits had examined the district's investment practices and made recommendations for improvement. Audit programs could certainly be expanded to make such reviews a part of an audit.

Expanding the audit program to include a review of investment practices will probably increase the cost of the annual financial audits by a small amount. The findings of Legislative Post Audit's eight performance audits would indicate, however, that the additional money would be well spent. In the area of investment practices alone, the changes recommended by Legislative Post Audit would produce almost enough additional interest in one year to cover the entire cost of the eight performance audits. Such changes would produce additional income in following years as well, compounding the value of such reviews. To avoid unnecessary costs, however, it would probably be advisable to build in such a review only once every few years rather than as part of every annual audit.

One final point in this area relates to districts that lie in more than one county. Although the 1981 Legislature changed State law by requiring the treasurer of the district's home county to distribute property tax collections to the district at least six times a year, the change in the law does not affect distributions by counties other than the home county. K.S.A. 72-8204(b) still requires such counties to make appropriate property tax distributions to the home county (and subsequently to the school district) only three times a year. In the Russell County district, which was the only one of the eight audited districts affected by this law, the auditors found that other counties' distributions were not made on time and that a number of months often went by before the district actually received its money. To ensure that all counties distribute their tax collections on a timely basis, the Legislature may wish to consider amending the law by requiring all counties within a school district to distribute tax collections six times a year, either to the main county or directly to the school district.

Recommendations

1. The Department of Education should take an active role in improving the investment policies and practices of the State's school districts. As a first step, the Department should call the districts' attention to methods for increasing interest earnings in such areas as obtaining interest-bearing checking accounts and encouraging county treasurers to pass on interest earned on undistributed tax collections.

2. The Department of Education and the Division of Accounts and Reports should ensure that a thorough review of a school district's investment practices is conducted periodically (perhaps once every three years) as part of regular financial audits of the district.

3. To ensure that tax collections are received from all counties within district boundaries on a timely basis, the Legislature should consider amending K.S.A. 72-8204(b) in one of the following ways:

   a. Requiring other counties within a school district to transfer property tax moneys to the home county six times a year, which is the distribution schedule for home counties specified in Chapter 380 of the 1981 Session Laws.

   b. Requiring those counties to distribute moneys six times a year, but allowing them to distribute it directly to the school district.

Problem: Current Budgeting Procedures Can Encourage Unnecessary Build-Up of Carry-Over Balances and Unnecessary Transfers from the General Fund

Several times during this series of audits, Legislative Post Audit concluded that carry-over balances have appeared to be higher than necessary or that transfers from the General Fund into special funds have been larger than necessary. These findings have generally brought objections from district officials, who have claimed that the balances and the transfers are not excessive and can be fully justified. The issues of carry-over balances and transfers have been discussed more fully in Chapter II of this report, but several points need to be made by way of summary here.

The first point is that these issues are the result of a complicated budget process. Because a school district's operating year does not match a county's tax collection cycle, carry-over balances have become a way to ensure that a district will have sufficient revenue to remain solvent throughout the year. And because programs financed through special funds often do not receive enough direct aid to support them fully, transfers from the General Fund are used as a necessary supplement. In their responses to the audits, the districts sometimes said that auditors did not understand the necessity for carry-over balances and transfers. This is not correct; Legislative Post Audit has always acknowledged that there is a need for both. At the same time, however, Legislative Post Audit does not believe that the complexity of the budget process should be used as an automatic justification for the size of carry-over balances and transfers.

Legislative Post Audit's point in analyzing carry-over balances and transfers has been that there ought to be some guidelines against which the reasonableness of both can be measured. It is a fact that in nearly every one of the eight districts audited, carry-over balances have risen faster than the budget and faster than the overall growth in available funds. This led the auditors to analyze the balances in terms of how comfortably they carried the district into the next fiscal year; the results showed that the balances appeared to carry the districts quite comfortably, and sometimes with a sizable amount to spare. The analysis of transfers was prompted by a similar concern that the size of carry-over balances often indicated that some transferred moneys had not been needed to keep funds solvent. The transfer mechanism can create an incentive for districts to transfer General Fund moneys to other funds, where they are not subject to budget limitations and can be used later, rather than to keep them in the General Fund, where they can be used to reduce the need for property tax revenues the following year. Even if districts are not taking deliberate advantage of this provision, there is still a need to address the extent of transfers to make sure the district is doing everything possible to keep the need for tax dollars to a minimum.

Legislative Post Audit's guidelines were meant as reasonable points of reference, not as absolute standards. As a means of gauging the adequacy of a district's carry-over balances, a guideline was adopted that a cushion of one month's expenditures at the low point of the year was a reasonable amount. (The "cushion" means that when the district's funds were drawn down to their lowest point during the year, the district still had a reserve equal to an average month's expenditures. Funds being saved for future construction projects in the larger districts were not included as part of the reserve.) This guideline can certainly be refined; for example, it can perhaps be applied to each fund separately rather than to all funds together. Nevertheless, as a way of providing information to a district and to the State about whether balances and transfers should be adjusted downward, development of such guidelines appears to be a worthwhile idea.

One more point should also be made in this regard: State law already contains provisions that could be used to reduce balances and transfers, but the auditors found little evidence that districts were using the law in this way. The 18-month budget requirement allows districts to set their mill levy to fund any amount between 140 and 150 percent of the annual budget. The closer the levy is set to provide 140 percent, the smaller the carry-over balances are likely to be; the closer the levy is set to 150 percent, the larger the balances are likely to be. The auditors found that most districts set their levy closer to 150 percent. State law also gives districts the authority to return unneeded transfers made to the food service, capital outlay, and transportation funds. The auditors found no instances in which these transfers were returned, even though transfers to these funds were found to be unnecessary in some districts. Expanding this authority to include other special funds could be coupled with a requirement that transferred moneys over and above a certain fund balance must be returned to be General Fund at the year's end.

Another way to conduct reviews of cash management is to incorporate them as part of the regular financial audit of school districts. Such a review, much like a review of investment practices, could be conducted periodically in accordance with a revised audit program developed by the Department of Education and the Division of Accounts and Reports. The accountants could be instructed to review balances and transfers to determine ways in which the district's cash flow could be improved. Such a review would not only help ensure that excessive amounts are not being carried over or transferred; it could also find ways to increase the amount of money available for investment.

Recommendations

1. The Legislature should consider directing the Department of Education to develop guidelines for determining when carry-over balances are excessive. (An example of such a guideline would be a reserve of one month's expenditures in each fund at the fund's low point during the fiscal year,

excluding any funds specifically earmarked for future construction or other major capital outlay.) The Department should incorporate the use of these guidelines into yearly financial reports that would help the districts and the State evaluate the districts' financial condition.

2. The Legislature should consider amending State law to allow districts to return unneeded General Fund transfers made to all special funds. At present, State law allows the districts to return transfers made only to the food service, capital outlay, and transportation funds. The Legislature should also consider establishing a requirement that transferred moneys contributing to an excessive balance be returned to the General Fund at the end of the year.

3. The Department of Education and the Division of Accounts and Reports should ensure that a thorough review of a school district's cash management program, including carry-over balances and transfers to and from the General Fund, is conducted periodically (perhaps once every three years) as part of regular financial audits of the district.

Problem: School Districts Often Appear to Use Staff, Facilities, and Other Resources Less Efficiently than Possible

Under existing State law, the Legislature has some tools for encouraging efficient operation by school districts. The main one is the limitation the Legislature imposes on the amount a district's General Fund budget per pupil may rise from year to year. During these audits, the auditors found many examples of steps the districts had taken to use staff and buildings efficiently. Nevertheless, as Chapter III of this report has shown, the auditors did find that the use of staff and facilities in a number of these districts was not as efficient as it could be. Much of the inefficiency lay in the operation of too many schools. School consolidation was the greatest source of potential savings found in the audits.

It seems clear that, as enrollment continues to decline and as costs continue to rise, the call for more efficient operation of schools will grow. One reason for Legislative Post Audit's conclusion that the audited districts were by and large in sound financial shape was that they had so far been able to find the money necessary to sustain such less efficient operations. As the State's share of the total cost of elementary and secondary education continues to move toward 50 percent, interest has grown in finding ways the State can encourage maximum efficiency of State-supported programs without taking over the role of local school boards. The auditors' findings would indicate that cost savings will often now require difficult and sometimes unpopular decisions by local school boards.

Among the Legislature's options for encouraging greater efficiency are the following:

Building penalties for inefficient operation into the formula for State equalization aid. The State has some information available that helps determine whether a district is operating inefficiently. Ratios of pupils to staff can help point out such problems; a low pupil-teacher ratio, for example, can be an indication that too many schools are being operated, that too many small classes are being offered, or that a district should perhaps join with another to make fuller use of teachers and space. Per-pupil cost comparisons with similar districts in such areas as instruction, administration, and maintenance can also point out similar inefficiencies. Building an appropriate penalty into the funding formula when ratios or costs reach a prescribed level would allow the State to cut back aid without dictating policy to the district. It would also allow the district to continue to operate inefficiently if it chose to do so, but would withdraw State financial support from that inefficiency.

The measures that would key such penalties need to be carefully developed. Care would have to be taken, for example, to ensure that all appropriate staff were considered in a ratio of pupils to administrative staff; as the auditors found in their review of administrative staffing in the larger districts, a number of positions that could be considered administrative in nature are omitted in current reporting requirements. The measures would also have to be evaluated after they have been in effect, because they may not prove to be specific enough to identify problems. Some of the audited districts in which inefficiencies were found, for example, have ratios that are not out of line with those of other districts. In these cases, inefficiencies in the operation of some schools are being cancelled by greater efficiencies in the operation of others. Responsibility for developing meaningful measures and evaluating them would appear to rest with the Department of Education.

Building incentives for more efficient operation into State categorical aid programs. The steps discussed above would discourage inefficiency by penalizing districts that did not meet certain standards, but they would not necessarily encourage districts already meeting those standards to become still more efficient. The current formula for providing State categorical aid to transportation programs illustrates the need to consider additional incentives as well.

The current funding formula does contain a penalty for districts with transportation costs that are higher than average. At present, the State provides transportation aid on a per-pupil basis, but at a rate no greater than the average per-pupil cost for districts with a similar density. If the average per-pupil cost for districts with a certain density is $400, for example, a district with an actual per-pupil cost of $500 would receive only $400 in State aid. This provision discourages inefficiency to some extent because districts above the average must make up the difference themselves, although they often do so with transfers from the General Fund, which usually include State money.

More important, however, is that being at or below the average per-pupil cost is no automatic sign of efficiency. Per-pupil costs rest as much on other factors, such as the size of the district and the distribution of the population, as they do with density. As a result, a district might be highly inefficient and still fall below the average. Once a district is at or below the average, there is little or no incentive to improve its operations still further.

An alternative to the current approach would be to finance a specified percentage of a district's per-pupil costs. This percentage could be increased for those districts with below-average costs, but even those districts would have an incentive to operate as efficiently as possible because they were still paying part of the bill.

Changing State requirements for closing schools. Under current State law, requirements for closing schools differ in large and small districts. In cities with a population of more than 20,000, a school board has the ability to close a school without automatically submitting the matter to the voters. In smaller districts, however, a school cannot be closed without a public vote. This vote is not district-wide; it includes only those persons who live in the attendance area. (The attendance area is defined as the boundaries of the older, smaller school district that existed before it was consolidated with others.)

The current law concerning smaller districts has several problems. The first is that it requires a public vote, whether there is controversy in closing a school or not. An alternative to the current requirement would be to extend the power to close a school to all boards, regardless of the size of the district. If patrons objected to closing the school, they could petition for a vote on the matter. Thus, the voters would have been able to override a school board's decision to close a school if they disapproved, but they would not have to hold a vote to affirm a school board decision with which they agreed.

A second problem lies in restricting the vote to those persons in the district living near the school. Under the law, if these voters wish to sustain the operation of an inefficient building, they must agree to bear the additional cost. However, keeping an inefficient school open also means that inefficiencies are perpetuated elsewhere in the district. If the patrons of one school decide not to consolidate their school with another one large enough to accommodate all students, both schools will be operated inefficiently. The patrons of the second school must subsidize that inefficiency, whether they wish to or not. When the law focuses so heavily on individual schools, a school board's ability to look at the most efficient management of district-wide resources is limited.

One final concern with current law also may merit legislative attention. The current law does not require a school board to close a school even if a majority of voters in the district formally request the board to do so. Changing the law to require a school board to close a school when the majority of the voters vote to do so is another alternative the Legislature may wish to consider.

Increasing the role of the Department of Education in reviewing school district efficiency and pressing for improvements. The problem with incentives and penalties such as those described above is that they may not fully identify those districts that are efficient or inefficient. Measures such as ratios and averages may be effective indicators for many districts, but there are likely to be exceptions in dealing with 305 school districts. One alternative to instituting automatic incentives and penalties is for the Department of Education to collect, analyze, and use such information more fully in its role as the State agency responsible for controlling elementary and secondary aid programs. The Department could, for example, conduct reviews of staffing and facilities similar to reviews performed by the auditors and make recommendations to local school districts. The information could be used by officials in the executive and legislative branches to modify aid formulas and establish levels of State aid. As part of its reviews, the Department could also assess the desirability of consolidating school districts to reduce costs by eliminating staff and combining schools across existing district lines.

Recommendations

To encourage more efficient use of staff, facilities, and other resources, the Legislature should consider taking the following actions:

1. Amending State funding formulas by adding penalties for inefficient operation and incentives for efficient operation wherever possible.
2. Amending State laws to make it easier for boards of education or the voters to close inefficient schools.
3. Directing the Department of Education to conduct reviews of staffing and facilities and make recommendations to local school districts regarding the more efficient use of resources, including the consolidation of school districts where appropriate.

Other Matters for Possible Legislative Attention

The audits also found several other problems that would require legislative attention. These problems, access to teacher evaluations and changing State law on certain distributions of property taxes, are discussed below. Also provided below are some alternatives for future school district audit work by Legislative Post Audit.

Access to Teacher Evaluations

As part of their work in each district, the auditors tried to determine whether teachers had been evaluated as often as required by law, and whether designated procedures had been met in dealing with evaluations and other personnel issues. Aware that evaluations are sensitive documents and that matters of confidentiality are involved, the auditors did not examine the substance of the evaluations. Instead, they concerned themselves only with procedural matters, such as the frequency of evaluations, evidence that conferences had taken place, and evidence that procedures had been followed in those instances in which actions against staff members had been taken because of unfavorable evaluations.

In most districts, the auditors received access to evaluations in order to verify this information while still respecting the confidentiality of the substance of the evaluation themselves. In Russell, however, access was refused. School district officials there cited State law specifying that except by order of a court, evaluation documents are available only to the employee and other persons certified in writing by the employee, the local Board of Education and staff members designated by the Board, and the State Board of Education. If Legislative Post Audit continues to audit school districts, it would seem appropriate for the auditors to have access in order that compliance with State law can be determined. It appears that a statutory change would be necessary to clarify Legislative Post Audit's right of access for such purposes.

Recommendation

To ensure that the Legislative Division of Post Audit can determine school districts' compliance with State personnel evaluation requirements, the Legislature should consider amending K.S.A. 72-9005 to specify that the Division is allowed access to personnel records.

Alternatives for Future Audits by the Legislative Division of Post Audit

In this first set of school district audits, the Legislative Post Audit Committee directed the auditors to address a wide range of topics regarding school district management and programs. The range of topics meant that the auditors could not go into great depth in analyzing any one program or issue. Special education, vocational education, or consolidation, for example, could not be reviewed in detail. Because this was the first set of school districts examined by Legislative Post Audit, the auditors had to spend some time learning the ins and outs of budgets and programs; in future audits, the Division will now have that time for learning behind it and will be able to tackle additional issues. Nevertheless, it does not appear possible for future audits to include **both** a comprehensive review of a district **and** a more detailed look at specific programs of interest to the Legislature. As a result, the Legislative Post Audit Committee may wish to consider some alternatives in directing future education audits. These would appear to include the following:

Substituting an audit of an education program for an audit of one or more school districts. For a more comprehensive and detailed look at the State's special education program, for example, the Committee might consider directing the Division to analyze special education in several settings--a large district, a medium-sized district, and a cooperative. A more detailed look at vocational education could be provided by substituting an audit of one or more vocational-technical schools or cooperatives for an audit of an entire school district.

Substituting a study of a topic of potential cost savings for an audit of one or more school districts. In Chapter III of this report, for example, Legislative Post concluded that the greatest potential for saving money in smaller districts was perhaps in consolidation of districts themselves. If the Committee wanted a more detailed look at this topic, it might consider directing the Division to study one or more counties, concentrating only on matters relating to the potential consolidation of school districts.

PART TWO

PERFORMANCE AUDIT — DONIPHAN COUNTY EDUCATION COOPERATIVE

DONIPHAN COUNTY EDUCATION COOPERATIVE

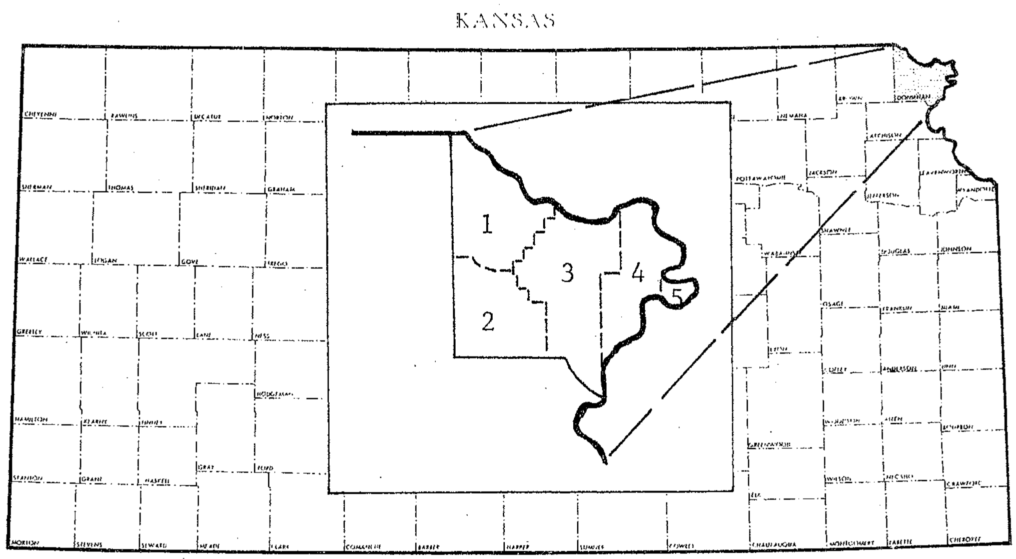
Kansas law enacted in 1974 requires school districts to provide special education services to various categories of students. These categories include the mentally retarded, those with speech or hearing impairments, the visually handicapped, those with serious emotional disturbances, the orthopedically impaired, the learning disabled, and the gifted. School districts were required by law and subsequent amendments to have services for these children in place by July 1, 1980.

As a result of the expansion of these programs, expenditures for special education have increased greatly. In fiscal year 1975, school districts spent $25.3 million on special education; by fiscal year 1981, they were spending $95 million, an increase of 275 percent. Most of the increase was for more staff. Special education teachers, paraprofessionals, and support staff increased by 120 percent during this period, from 2,023 full-time equivalent positions in fiscal year 1975 to 4,456 positions in fiscal year 1981. To help provide the services mandated by law, State aid also increased substantially. It rose from $9.5 million in fiscal year 1975 to $39.4 million in fiscal year 1981, an increase of 319 percent.

School districts have several options for providing special education services. A district may set up its own special education program, contract with other districts or agencies to provide special education services, or enter into an agreement with other districts to form a special education cooperative. In fiscal year 1981, there were 31 cooperatives providing special education services.

Because of the large increases in total expenditures and in State aid for special education, the Legislative Post Audit Committee decided to include a review of a special education cooperative as part of the series of performance audits of school districts conducted during 1981. The Doniphan County Education Cooperative was selected because one of its member districts, the Elwood Unified School District, had been selected as a district to be audited.

The Doniphan County Education Cooperative was established by an interlocal agreement in 1979. The Cooperative comprises all five districts in Doniphan County: Wathena (U.S.D. 406), Highland (U.S.D. 425), Troy (U.S.D. 429), Midway (U.S.D. 433), and Elwood (U.S.D. 486). These five districts had previously established a sponsoring district cooperative for special education in 1976. The 1979 agreement went beyond special education to include such other services as career education, media services, curriculum development, in-service training for staff programs,



The Doniphan County Education Cooperative is composed of the five school districts in the county: (1) Highland, (2) Midway, (3) Troy, (4) Wathena, and (5) Elwood. The Cooperative provides special education services at schools in all five districts.

and such other purposes permitted by Kansas law. Nevertheless, the current Cooperative continues to focus on special education. The Cooperative provides its own special education programs for the learning disabled, the speech-impaired and language-impaired, the mentally retarded who can be educated, and the gifted. It contracts with other school districts or agencies for the special education programs it does not provide.

The Cooperative is administered by a Board of Directors, which is composed of one school board member from each of the five boards of education. In fiscal year 1981, the Cooperative employed an Executive Director to oversee daily operations. In addition to the Director, the Cooperative had a staff of 22.5 full-time equivalent employees. In fiscal year 1981, 193 students from the five districts participated in the Cooperative's programs. Most of these students participated part-time in special education programs and spent the rest of their time in regular classrooms.

Management of Financing

Programs operated by the Cooperative are financed by equal payments from each of the five participating districts. The Cooperative also receives State and federal funds. In fiscal year 1981, the Cooperative had $425,718 in total available funds. Expenditures in fiscal year 1981 were $347,063.

ENROLLMENT IN SPECIAL EDUCATION PROGRAM Doniphan County Education Cooperative Fiscal Year 1981			
District	Total Students	Students Attending Cooperative Classes	Percentage of Total District Enrollment in Cooperative
Wathena	497.5	55	11.1%
Troy	432.0	32	7.4
Highland	308.5	37	12.0
Elwood	260.2	44	16.9
Midway	241.5	25	10.4

To determine whether the Doniphan County Education Cooperative effectively manages its financial resources, the auditors reviewed the district's available funds and its use of those funds for fiscal years 1980 and 1981. The following section presents an overview of the Cooperative's sources and uses of funds, and it reports the auditors' findings in the areas of investment procedures, purchasing procedures, and financial records.

Sources of Funds

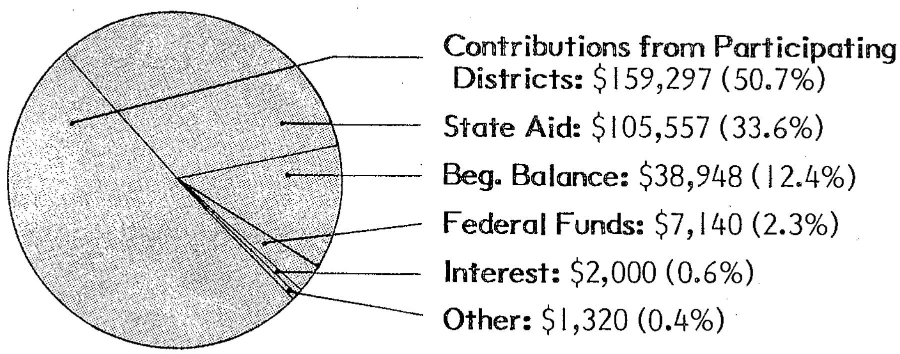
In fiscal year 1981, the Cooperative had a total of $425,718 in available funds. This was an increase of 35.4 percent over fiscal year 1980, the Cooperative's first year of operation. The Cooperative obtains most of its funding from four sources--balances carried over from the previous year, payments from the five participating districts, State funds, and federal funds. The Cooperative also receives small amounts from interest on investments, textbook rental, and other miscellaneous sources of revenue. In fiscal year 1981, payments from the five districts made up the largest portion of total available funds, 47.2 percent. State aid accounted for 34.8 percent, beginning balances for 10.7 percent, and federal funds, interest, and textbook rental for the remaining amount. The percentages for fiscal year 1980 were similar.

The five districts make their payments to the Cooperative from their special revenue fund for special education. The review of the Cooperative did not include an analysis of budgeting in all five districts, but because the Elwood district had been the subject of a performance audit, its special education fund had been examined in detail. A description of Elwood's handling of the payment to the Cooperative may help to explain the general relationship between school districts and special education cooperatives.

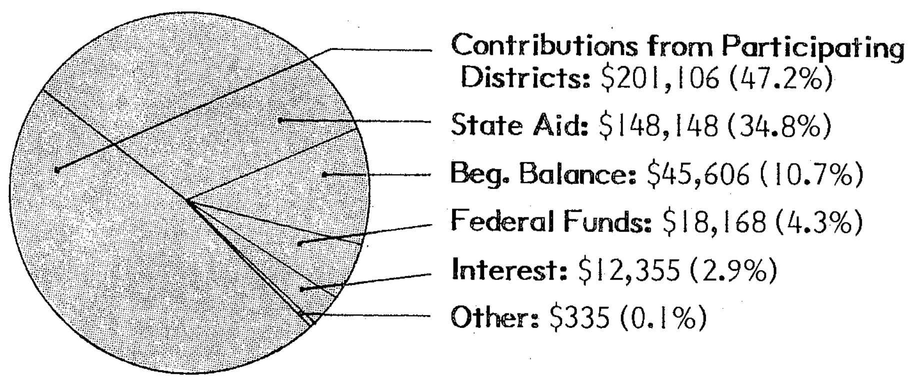
For fiscal year 1981, Elwood had $59,722 in its special education fund. Most of this amount, 67 percent, came in a transfer of $40,000 from

SOURCES OF FUNDS
Doniphan County Education Cooperative
Fiscal Years 1980-1981

Fiscal Year 1980
Total = $314,262



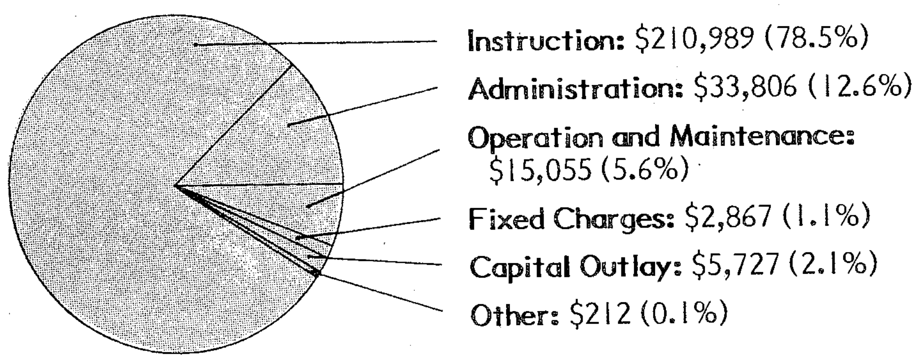
Fiscal Year 1981
Total = $425,718



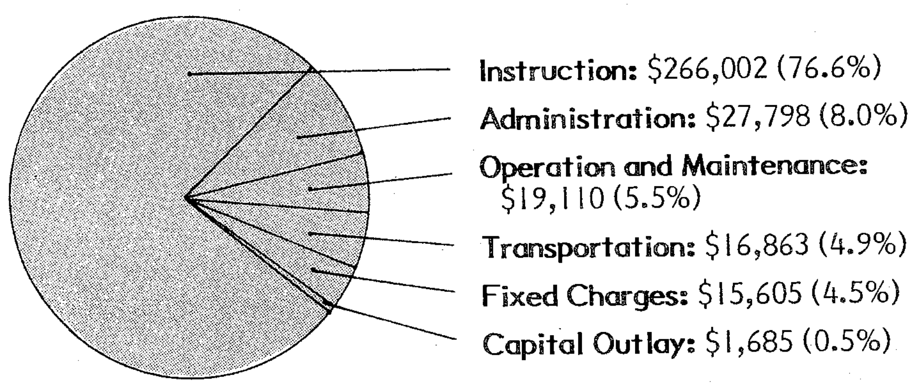
the General Fund. The carry-over balance from the previous year accounted for 28 percent, and the remaining five percent came primarily in the form of State reimbursement for the district's cost of transporting special education students. Because Elwood does not provide any special education programs itself, it receives no other State or local aid that is specifically earmarked for special education. Its payment to the Cooperative must thus be financed mainly through the General Fund. In fiscal year 1981, State aid constituted nearly 70 percent of the district's General Fund. As a result, $27,832 of its $40,221 payment to the Cooperative was State equalization aid that came from the General Fund transfer.

USES OF FUNDS
Doniphan County Education Cooperative
Fiscal Years 1980-1981

Fiscal Year 1980
Total = $268,656



Fiscal Year 1981
Total=$347,063



During fiscal years 1977-1981, available funds in Elwood's special education fund rose 104 percent and expenditures rose 73 percent. Carry-over balances increased 210 percent from the 1977 level. The auditors found that the balances had increased mainly because the district had transferred slightly more General Fund money than necessary to meet expenses during the period.

Uses of Funds

In fiscal year 1981, the Cooperative spent a total of $347,063. This was an increase of 29.2 percent over the previous year. The major portion of the Cooperative's expenditures was spent for instruction. This includes teachers and other instructional staff, library and audiovisual equipment, textbooks, and teaching supplies. In fiscal year 1981, these expenditures were 76.6 percent of all expenditures for the program. The remaining 23.4 percent was for administration, operation and maintenance, fixed charges such as insurance, social security, workmen's compensation, and employee fringe benefits, transportation, and capital outlay. At the end of fiscal year 1981, the Cooperative had a carry-over balance of $78,655, an increase of 72.5 percent from a year before.

Considering Alternatives for More Equitable School District Payments to the Cooperative

Each of the five school districts contributes an equal amount to the Cooperative. In fiscal year 1981, each district contributed $40,221. Equal payments are called for in the agreement establishing the Cooperative. Because the number of students receiving services varied from district to district, however, the cost per student for each district varied considerably. As the following table shows, the number of students attending classes in the Cooperative varied from 25 for Midway to 55 for Wathena. Because each district contributed $40,221, the cost per student for Wathena was less than half the cost for Midway--$731 compared with $1,609.

School District	Students Attending Cooperative Classes	Payment to Cooperative	Cost Per Student
Wathena	55	$40,221	$ 731
Elwood	44	40,221	914
Highland	37	40,221	1,087
Troy	32	40,221	1,257
Midway	25	40,221	1,609

Given these disparities, the Board of Directors of the Cooperative may want to review the current method of determining school district payments to determine if there are more equitable alternatives. These alternatives might include basing payments on the actual number of students participating in the Cooperative and taking into account the cost of specific services received by these students. If such approaches are not desirable, the Board could also consider basing assessments on the total number of students in each district. Although this method may not be as equitable as the other alternatives, it will help ensure that the distribution of costs is more likely to reflect the long-term pattern of use of special education services.

Recommendation

To ensure that the costs of operating the Doniphan County Education Cooperative are shared equitably by the participating school districts, the Board of Directors should consider other alternatives for determining school district payments to the Cooperative. Alternatives to the current system could include payment on the basis of the number of special education students, payment on the basis of specific services rendered, or payment on the basis of the total number of students in the district.

Increasing Interest on Moneys Not in Use

Investing funds which are not immediately required for operation is one way the Doniphan County Education Cooperative earns additional revenues to fund its programs. During fiscal year 1981, the Cooperative earned $12,355 in interest on its investments. This was a 518 percent increase over the $2,000 earned in fiscal year 1980.

The large increase in interest earnings occurred partly because the Cooperative received an overpayment of State aid which was invested in a certificate of deposit during the first part of fiscal year 1981. The overpayment occurred when the Department of Education sent the Cooperative a warrant for $210,055 when it should have sent one for $35,877--a difference of $174,178. The Department instructed the Cooperative to hold the warrant until it could determine the correct amount of aid due. The money was received in June 1980 and was held by the Cooperative until early October. Other reasons for the large increase in interest earnings over fiscal year 1980 include larger amounts available for investment, improved investment practices, and higher interest rates.

The auditors found that the uninvested cash balance in the Cooperative's checking account was kept at a reasonable level and that large receipts were deposited promptly. However, the auditors also found that the Cooperative could have earned approximately $2,000 more in interest on its certificates of deposit during fiscal year 1981. The Federal Reserve System has instituted interest ceilings which limit the rate of interest to eight percent on certificates of deposit of less than $100,000. When the Cooperative did not have $100,000 available to invest in certificates of deposit, it invested in several certificates of deposit in $20,000 denominations, some of them for longer than 30 days. As the amount of money available for investment increased during the year, the Cooperative continued to purchase certificates in $20,000 denominations. This created a situation in which the total investment in certificates was $100,000 or more but the rate of return received was only 8 percent because individual certificates were only $20,000 each. If the district had limited the term of all certificates of deposit under $100,000 to 30 days, it would have been able to invest moneys in a lump sum as additional moneys became available, thereby earning a higher rate of interest.

Recommendation

To increase its interest earnings, the Doniphan County Education Cooperative should take the following steps:

1. As long as the Federal Reserve continues the eight percent ceiling on certificates of deposit of less than $100,000, the district should not invest in such certificates for a term longer than 30 days. Investing for longer periods prevents these moneys from being combined with larger amounts to earn a higher interest rate.

2. As additional moneys are received for investment, the Cooperative should combine certificates of deposit for less than $100,000 each, which earn only eight percent, into single certificates of deposit for more than $100,000, which earn the 91-day U.S. Treasury Bill rate.

Review of Travel Expenditures

During fiscal year 1981, the Doniphan County Education Cooperative spent $14,499 on travel. Approximately $3,727, or 26 percent of those expenditures, was for lodging, meals, and other expenses of employees attending conferences meetings and conventions dealing with special education. The remaining $10,772 in expenditures was for mileage reimbursements for special education teachers and paraprofessionals in providing special education services. The auditors found that travel expenditures and reimbursements were adequately documented, accurately computed, and did not appear excessive when compared to total fiscal year expenditures. The auditors found, however, that State laws governing the reimbursement of special education teachers for travel expense do not provide adequate controls to limit the rate at which teachers can be reimbursed.

State statutes provide for special education teachers to be reimbursed for travel expenses in connection with their teaching duties. During fiscal year 1980, the Cooperative spent $6,487 for reimbursement of teaching-related mileage. For fiscal year 1981, that amount increased 66 percent to $10,772. In both fiscal years, the Cooperative reimbursed teachers at the rate of 20 cents per mile. For fiscal year 1982, reimbursement is based on a sliding scale. Teachers will be reimbursed at 25 cents per mile when unleaded gasoline prices are at $1.30 per gallon and reimbursement will be increased one cent for every ten-cent increase in gasoline prices. State law allows school districts and other governmental units to set any rate they choose for mileage reimbursement. Therefore, there is no limit on the rate that such governmental entities can set. In comparison with State-adopted rates, the Cooperative's results in mileage reimbursements that are higher than the 22 cents per mile allowed for official travel of State employees during fiscal year 1982.

Through State categorical aid, the State pays most of this travel expense. The State reimburses each district for 80 percent of the actual travel allowances paid to special education teachers. As a result, a district that pays a high mileage rate to its teachers will receive more State aid than a district paying a low rate. The following illustration shows what happens in two districts, one paying its teachers 25 cents a mile, the other paying 20 cents a mile.

	Miles Reimbursed	Rate Per Mile	Cost to District	State Aid 80% of Cost	Net Cost to District
District A	10,000	$.25	$2,500	$2,000	$500
District B	10,000	$.20	$2,000	$1,600	$400
Difference		$.05	$ 500	$ 400	$100

By paying a higher mileage rate, District A increases its total cost by $500 over District B. Because the State pays 80% of these costs, however, District A receives $400 more in State aid than does District B, cutting its net additional cost to $100, and causing the State to pick up of most the cost of its higher reimbursement policy.

To help ensure that the State's treatment of all districts is equitable and that this State program is not abused, the Legislature should consider amending State law by prescribing a maximum amount per mile that will be reimbursed for special education teachers.

Recommendation

To ensure equity among districts and to prevent possible abuses of State aid, the Legislature should consider amending K.S.A. 72-978 and 75-3203 to place a maximum on the mileage rate at which State aid will reimburse districts for travel by special education teachers.

Complying with State Purchasing Laws

Purchasing procedures at the Doniphan County Education Cooperative were reviewed to determine if they were in compliance with State law and provided for the efficient and economical purchase of goods and services. State law places restrictions on school districts requiring them to execute written contracts on all construction, remodeling, or purchases of goods or materials in excess of $1,000, to obtain competitive bids on all contracts for construction or the purchase of goods or materials which exceed $5,000, and to purchase items from Kansas Industries for the Blind or the Division of Vocational Rehabilitation when such products are available. The auditors found that the Cooperative was generally in compliance with these laws.

Errors in Financial Reports

Each month the treasurer for the Cooperative prepares a warrant list and a monthly financial report which is submitted to the Board of Directors for approval. The auditors' review showed that these reports contained numerous errors, many of which could have been identified by the Board if a closer review had been made when they were presented and approved. For example, the Cooperative's November financial report showed amounts totaling $1,725 for transportation during November; however, the report showed only $481 in year-to-date transportation expenditures. Similar errors existed throughout the year, and by year-end, individual categories of expenditures totaled $369,157 while the total shown on the financial report was $373,219. It appears that the Cooperative has not been as accurate as it should in preparing the financial reports and that the Board does not review monthly expenditure and financial data of the Cooperative as closely as it should. Although these errors were corrected during the Cooperative's annual financial audit, the problem remains that the Board does not have accurate month-to-month information on which to base its decisions.

Recommendation

The Cooperative should take steps to ensure that its financial records are accurate. In addition, the Board of Directors should more closely review the financial data submitted by the Treasurer.

Management of Resources and Programs

To determine whether the Doniphan County Education Cooperative manages its available resources effectively and efficiently, the auditors reviewed a number of aspects of the Cooperative's operations, including facilities, staffing and salaries, enrollments, and placement of students. The following section presents an overview of the Cooperative's resources and procedures, together with the auditors' findings about the district's performance.

Facilities

The Doniphan County Education Cooperative maintains its administrative headquarters in a former school building in Bendena. The Cooperative receives free use of the building, which is owned by the Midway school district, but must pay for insurance and upkeep. The building is used for administration only, and no classes are held at this location. Cooperative classes are held at various locations throughout Doniphan County--all in facilities owned by the five participating school districts.

Staffing

During fiscal year 1981, the Cooperative employed 22.5 persons on a full-time equivalent basis. These employees included an Executive Director, 10.5 teachers, 7.0 paraprofessionals, a vocational coordinator, a psychologist, a clerk, and a treasurer. The Cooperative increased its staff by 2.5 full-time equivalent positions from fiscal year 1980. The teaching and paraprofessional staffs expanded to accommodate more students requiring services.

The teaching and paraprofessional staffs were distributed as follows among the major programs:

Program	Teachers	Paraprofessionals
Learning Disabled	4.0	2.5
Educable Mentally Retarded	4.0	3.0
Speech and Language-Impaired	1.0	1.0
Gifted	1.5	0.0

Because figures for special education teachers' salaries in other districts were not available, the auditors were not able to compare the salaries of special education teachers in the Cooperative with those in similar situations. Comparisons can be made, however, with salaries for all school teachers. As the table on the next page shows, the average teacher's salary in the Cooperative was lower than the average for school districts with less than 400 students, and lower than the Statewide average. The average salary for the Cooperative was seven percent lower than salaries in small school districts and 16 percent lower than salaries Statewide. The Director's salary was 2.6 percent higher when compared with principals in the small school districts but 9.1 percent lower when compared with all principals Statewide.

In addition, the Cooperative provided $25 per month towards health insurance for each employee enrolled in the health plan during fiscal year 1981. The Cooperative also provided its Director with a vehicle for transportation and contributed $330 per year for additional insurance benefits for the Director.

STAFFING INFORMATION
Doniphan County Education Cooperative
Fiscal Year 1981

Position	Number (FTE)	Average Contracted Salaries: Doniphan County Education Cooperative	Avg. in All Districts With 400-1,600 Enrollments	Statewide Average
Principals and Asst. Principals	1.00	$22,249*	$21,695	$24,567
Classroom Teachers	10.50	12,747	13,701	15,250

* Position is held by two persons, one at .75 time and one at .25 time. Salary figure reflects the combination of the two.

Enrollment

The Cooperative served 193 special education students from the five participating districts in fiscal year 1981. These students were classified into eight categories: learning disabilities (76 students), speech-impaired and language-impaired (49 students), educable mentally retarded (37 students), gifted (19 students), trainable mentally retarded (five students), personal and social adjustment (four students), severely multiply handicapped (two students), and physically handicapped (one student). As the table on the next page shows, overall, the number of students served by the Cooperative increased 49.6 percent since September 1979, when the Cooperative was first established.

Most of these students receive part-time instruction through the Cooperative and spend the rest of their time in regular classrooms. The auditors reviewed a number of files to gain an understanding of how much time the various kinds of special education students spent in the program. As might be expected, those students with more severe disabilities spent more time in special education. Students in the educable mentally retarded program whose files were reviewed generally spent about 30 percent of their time in special classes; in one instance, the figure was 79 percent. Students in the learning disabilities and speech-impaired programs spent a smaller portion of their time in special education, and students in the gifted program spent the least amount. For those gifted students whose files were reviewed, the greatest amount of time in special education was about five percent.

The Cooperative provides programs only for the first four categories of special education services. For students in the four other categories,

ENROLLMENT INFORMATION
Doniphan County Education Cooperative
September 1979 - May 1981

	September 1979	May 1980	September 1980	May 1981	Percent Increase
Learning Disability	48	59	57	76	58.3%
Speech & Language Impaired	23	34	26	49	113.0
Educable Mentally Retarded	39	45	35	37	(5.1)
Gifted	13	0	13	19	46.2
Trainable Mentally Retarded	3	4	5	5	66.6
Personal & Social Adjustment	1	3	0	4	300.0
Severely Multiple Handicapped	2	2	2	2	0
Physically Handicapped	0	0	0	1	0
Total	129	147	138	193	49.6%

the Cooperative placed them into another appropriate program or contracted for outside services. The four students in the personal and social adjustment program also had learning disabilities; they joined the 76 other learning disabilities students. The Cooperative contracted for services for the five trainable mentally retarded students and the two severely handicapped students through a cerebral palsy agency and through special education programs in other school districts, and it arranged for the physically handicapped student to receive physical therapy services through a nearby hospital.

Because of the need for more individualized instruction in special education programs, and because of the lack of comparative information for other school districts, it was not possible to develop a meaningful pupil-teacher ratio that could be used to compare the Cooperative with others. Instead, the auditors compared the size of the staff for individual programs in the Cooperative with State guidelines for maximum teacher loads. This review was done to determine if the Cooperative deviates significantly from these guidelines. The table on the next page shows the number of

TEACHER WORKLOADS
Doniphan County Education Cooperative
Fiscal Year 1981

Program	Students per Teacher: Doniphan Co. Education Cooperative	Students per Teacher: State Plan Maximum
Learning Disabled	20(a)	18 (b)
Educable Mentally Retarded	9.3	10-17 (c)
Speech and Language Impaired	49	65 per week
Gifted	12.6	37

(a) Includes 4 personal and social adjustment students who were receiving services through this program during fiscal year 1981.

(b) Two additional students may be added for each paraprofessional employed; the Cooperative employs 2.5 paraprofessionals in this area.

(c) Range depends on the severity of retardation and the age span of students served.

students per teacher for each of the four programs for which the Cooperative maintains teaching staff and the maximum load prescribed under State guidelines. As the table shows, the number of students per teacher is below the State maximums in all four categories, but it appears to be substantially below the maximum in only one area--gifted education. The district employs 1.5 full-time equivalent teachers in this program and no paraprofessionals.

Compliance With Requirements of State and Local Special Education Plans

Responsibility for overseeing special education rests with the Department of Education. As part of its statutory responsibilities in overseeing special education, the State Department has developed, and annually updates, the State Plan for Special Education. The State Plan is a guide for local agencies to follow in developing programs to meet the goal of accommodating the needs of all exceptional children and youth in Kansas.

Under the State Plan, local education agencies must develop a comprehensive plan for special education. The local plan describes how the local agency will operate to comply with the Special Education for Exceptional Children Act. Each local plan must contain specific goals and policies. In addition, specific procedures for screening of students, testing and evaluation, placement, complaints, and due process must be outlined in the local plan.

The auditors reviewed the Doniphan County Education Cooperative's comprehensive local plan for special education to determine if it was in compliance with the requirements of the State Plan. They found that the local plan contained the items mandated by the State Plan. In addition, the auditors reviewed individual files of 20 of the 193 special education students to determine if the proper screening, evaluation, and testing procedures had been followed as outlined in the local plan. They found that the Cooperative had not documented its compliance with all steps called for in the local plan. Their review showed the following:

	Yes	No
1. Was there a record showing who referred the student for special education services, and why?	13	7
2. Was there a record showing that a parent had given permission for the student to be evaluated?	19	1
3. Was there a record showing that a committee had met to place the student and review progress?	20	0
4. Was there a signed plan tailored to the student's needs?	20	0
5. Was there a record showing that a parent had given consent for a student's placement?	19	1
6. Was there a record of an annual evaluation of the student?	20	0
7. Was there a record of evaluations of a student's progress every 12 weeks?	11	9

As the results show, the Cooperative had not completed and filed all forms required by the local comprehensive plan. The form most frequently missing was a record of periodic evaluations of student progress. Only 11 of the 20 files sampled, or 55 percent, were complete in this regard. Only 13 of the files sampled contained a referral form indicating who referred the student for special services and the reason why the student was referred. However, the seven other students were receiving special services in another program at the time that the Doniphan County Cooperative was formed. Therefore, no new referral forms were completed on these students.

Other missing documents included one missing parental consent for evaluation, and one missing parental consent for placement. These forms need to be completed and placed in the file in order for the Cooperative to protect itself in any legal action with regard to placement of a student.

Recommendation

To comply with its local plan and the State Plan for Special Education, the Doniphan County Education Cooperative should maintain the appropriate records of all actions taken with regard to student evaluation and placement.

Appropriateness of Placement

The auditors made a second review of student placement files to determine if students were tested prior to being placed in a program, if students appeared to be placed in the proper service category, and if IQ scores of students tended to support their placement in a particular program. For this review, the auditors examined 104 student case files, or about 54 percent of all students receiving service from the Cooperative.

The auditors' review showed that testing was an important part of the Cooperative's evaluation and placement process. The average number of tests administered to students in the sample prior to their placement was 5.9. The number of tests varied from student to student and program to program. On the average, the number of tests administered to students participating in various special education programs was as follows:

Program	Average Number of Tests
Learning Disabled	6.4
Educable Mentally Retarded	5.9
Personal and Social Adjustment	5.3
Speech and Language Impaired	4.0
Gifted	4.5

The auditors' review of reasons for placement of students in special education programs showed that the placement reasons documented in each student's case file agreed with the general description of the type of student to be served by the appropriate special education program as outlined in the Special Education State Plan for fiscal year 1981. No cases were noted in which students appeared to be placed in the wrong program.

Finally, the auditors reviewed IQ scores noted in student files as additional support for determining if a student was properly placed in a particular program. In order to compare student IQ's with normal range IQ's, the auditors obtained an IQ range classification schedule used in connection with the Wechsler Intelligence Scale for Children. This was the testing instrument used by the Cooperative to obtain IQ scores for children referred for evaluation.

The average IQ for the students reviewed in the Educable Mentally Retarded Program was 72.8 with the low IQ being 62 and the highest being 88. This compares with an average range of IQ's of 90-109. On this basis it appears that all of the students in the program had low average, borderline, or mentally deficient IQ scores. The average IQ for the students reviewed in the Learning Disabled program was 89.9 with a low of 70 and a high score of 122. These scores were in the borderline, low average, average, and superior ranges. These scores appear to be appropriate for students in the Learning Disabled program because this classification is to provide special services to students who have the ability to progress normally, but who are achieving at lower levels. Students in the Gifted program demonstrated an average IQ of 131.6 with a low of 125 and a high score of 142. These scores were in the superior and very superior IQ ranges and appear to be appropriate IQ scores for gifted students.

In summary, the auditors' review showed that students appeared to be appropriately placed in the special education programs offered by the Cooperative.

APPENDIX A

Agency Response to Audit
of Special Education Cooperative

DONIPHAN COUNTY EDUCATION COOPERATIVE #616

P.O. BOX 218 BENDENA, KS 66008 913-988-4204

Don L. Nigus, Director

February 22, 1982

Richard E. Brown
Legislative Division of Post Audit
Mill Building
Topeka, Kansas 66612

Dear Mr. Brown:

The following clarifications and corrections are suggested for your performance audit of the Doniphan County Education Cooperative # 616.

In paragraph five page one you indicate the five districts had already established a cooperative for special education in 1976. In fact, the 1979 agreement created an Interlocal Agreement instead of a sponsoring district cooperative. The legal status of the two organizations is by statute definitely different. D.C.E.C. #616 currently has the legal status of a unified district with one exception. That being the power to levy taxes.

Recommendation: Paragraph one, page seven has been considered and noted in the May 14, 1980 board minutes. All parties agreed alternative financing should be a consideration for the new agreement to be written in 1983-84.

The current philosophy that was incorporated at the beginning of the cooperative was that since the programs were mandated all schools would need to provide the services and alone the cost would even be greater. (Attached are options being considered.)

Recommendation: Paragraph two, page eight is certainly appropriate. As we can accumulate the $100,000 ability to invest in these areas, it will be incorporated.

Recommendation: Paragraph five, page nine is accurate in attempting to prevent abuses. However, flexibility at the discretion of the local board needs to be maintained due to the varied topography in the state of Kansas. Doniphan County would not be considered average in the comparison of its local roadways to the majority of the counties in the state.

Recommendation: Paragraph three, page ten has already been incorporated. During the time noted, five different treasurer's were employed by the board with only one with any degree of previous experience in school accounting. The board does employ extremely competent auditors in the firm of Bushman, Wolfe and Wood. Their assistance with the new experienced treasurer has improved this situation immensely.

Recommendation: Paragraph two, page sixteen is one which we and all special education agencies are constantly attempting to upgrade and improve. Our local computer managed system should now provide more rapid access and delivery of the information for these records.

We were certainly pleased with your findings in the appropriateness of placement and are currently striving to assure the creditibility and quality of the area is maintained.

Respectfully,

Dorrene Mitchell
DCEC # 616
Dorrene Mitchell

Deborah Gregory, Clerk
Attest.
Deborah Gregory

dkj