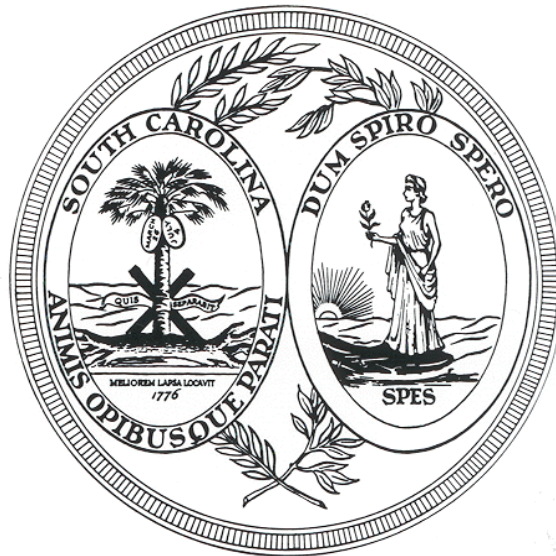


September 2004

Issues of Efficiency and Accountability Relating to School Districts



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Report to the General Assembly

**Issues of Efficiency and
Accountability Relating to
School Districts**

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Synopsis

The General Assembly requested an audit of the State Department of Education (SDE) and other issues in K-12 education. This report follows the May 2004 publication, *A Review of the State Department of Education and Issues of Efficiency and Accountability in K-12 Education*, and addresses objectives relating to the operations of the school districts. Our findings are summarized below.

- ❑ South Carolina does not have an adequate statewide process for measuring school district financial management. Such a process could determine whether a district is achieving its objectives and managing resources in an effective and efficient manner. Other states conduct detailed performance-based reviews of their school districts that have resulted in cost savings and improved performance.
- ❑ We reviewed the expenditures of South Carolina school districts and found that they do not vary significantly from those of other states. Although there is no uniformly accepted definition of which expenditures are “dollars to the classroom,” there is a wealth of information available about expenditures for K-12 education. Analysis of school spending patterns is a useful first step in reviewing operational efficiencies.
- ❑ We reviewed the issue of school district consolidation to determine whether there would be cost savings if more districts consolidated. South Carolina’s school districts are relatively consolidated compared to those of other states. While there is evidence that per pupil costs tend to be higher in small districts, it is unclear whether and how soon significant savings would be realized from widespread consolidation. Consolidations are more likely to be successful if undertaken on a case-by-case basis, with community support and identified benefits.
- ❑ Many streams of state funding for K-12 education are disbursed to the 85 school districts in separate allocations. The State Department of Education identified more than 100 state funding sources. A more consolidated funding mechanism would have the advantage of simplification and perhaps more efficient and effective use of resources. However, any simplification would have to be accompanied by adequate accountability controls to ensure that funds are used effectively in accord with the intent of the General Assembly.

Synopsis

Introduction

Audit Objectives

The General Assembly requested an audit of the State Department of Education and other issues in K-12 education. The May 2004 report *A Review of the State Department of Education and Issues of Efficiency and Accountability in K-12 Education* addressed 9 of the audit's 12 objectives. The three additional objectives discussed in this report are listed below.

- Determine whether an adequate statewide process exists for measuring school district financial management and operational efficiency.
- Determine whether there would be savings from the consolidation of school districts.
- Determine whether there would be benefits from consolidation of state funding for education.

Scope and Methodology

The May 2004 report contained a discussion of the scope and methodology of the audit. For the objectives covered in this report, the scope of work was related to the school districts and their operations, and focused on current conditions and relevant historical background.

Some sources of evidence we used to review these objectives are listed below.

- Information about school district operations and expenditures from the State Department of Education and the National Center for Education Statistics.
- Reports about school districts and their operations in South Carolina and other states.
- Interviews with officials from the State Department of Education, school districts, other South Carolina and federal agencies, and officials in other states.
- SDE manuals and policies.
- State laws for education.

We reviewed management controls over funds distributed to school districts and district operational management. Samples were not conducted in this review. We did a limited review of controls over the computer-processed data that we used and did not identify significant risks.

This audit was conducted in accordance with generally accepted government auditing standards.

Background

The public school system, serving more than 650,000 students, consists of more than 90,000 employees (46,000 teachers) located in 1,120 schools in 85 school districts and related operating units throughout the state. Of the 85 school districts, 29 are countywide units, while the remaining 56 districts are located in 17 counties with 2 – 7 districts per county. Ten districts are located in more than one county. In FY 01-02, the districts ranged in size from 900 to 59,736 students.

Both state and local government have authority over and responsibility for K-12 public education. At the state level, the education of South Carolina's public school students is the responsibility of the State Board of Education, the State Superintendent of Education, and the State Department of Education. At the local level, the school districts have varying governance, with 77 having elected school boards, 7 with appointed boards, and 1 with a combination of elected and appointed members. Most significantly, the school districts vary in their ability to determine their budgets and the tax rate.

- 23 districts have total independence over their budgets and setting the tax rate.
- 26 districts have no fiscal authority.
- 36 districts have limited fiscal authority (cannot exceed a specified yearly increase).

For school year 2000-2001, South Carolina schools were funded with a mix of state, local, and federal dollars (see Table 1.1).

Table 1.1: S.C. School Funding by Source, 2000 – 2001

SOURCE OF FUNDS	AMOUNT	PERCENT
State	\$2,941,097,000	54%
Local	2,071,464,000	38%
Federal	446,838,000	8%
TOTAL	\$5,459,399,000	100%

Source: National Center for Education Statistics

Audit Results

Accountability Process for School District Financial Management

South Carolina does not have an adequate statewide process for measuring school district financial management. Such a process would determine whether a district is achieving its objectives and managing resources in an effective and efficient manner. Other states conduct detailed performance-based reviews of their school districts that have resulted in cost savings and improved performance. The state could benefit from using these practices as a benchmark in developing and conducting its own reviews.

SDE's Compliance Reviews

Each school district is audited annually by a certified public accountant to ensure that its financial statements are accurate. In addition, the State Department of Education conducts some reviews of school districts' compliance with state and federal laws. The office of district auditing and field services reviews school districts for compliance with laws such as the Education Finance Act (EFA) and the Education Improvement Act (EIA). For example, SDE staff determines whether districts are recording expenditures in the correct categories and whether they comply with minimum teacher salary requirements. According to officials, SDE audits approximately 15 to 20 of the 85 school districts each year. The department also occasionally includes limited management reviews in its compliance audits; however, these reviews deal mostly with compliance and not efficiencies or effectiveness.

SDE officials agreed that financial management reviews of districts would be a way to improve efficiency at the district level but the department is hindered by its lack of staff. The office of district auditing and field services staff has been reduced over the years from 17 in FY 89-90 to 8 in FY 03-04.

SDE Data Resources

The State Department of Education makes available a number of resources that provide information about school districts. These reports could be used as a starting point in reviewing school district financial management.

In\$ite

SDE maintains this database of school district expenditures. In\$ite includes five categories — instruction, instructional support, operations, other commitments, and leadership (see p. 8). The data from the districts is sent to SDE after an independent audit. The largest use of the In\$ite data is for school report cards, but the department also has inquiries from the legislature and the public. In\$ite data is available on SDE's website, and may be used to

identify areas where a district's expenditures are higher than those of comparable districts.

Rankings

This annual publication, developed by SDE's office of research, provides useful information about school districts that can be used by decision makers. It ranks school districts in South Carolina based on characteristics resulting from or connected to the education process. Some of the topics in the report involve population, economics, pupils, professional staff, and finances.

Profiles

This publication, developed by the office of research, contains statistical, geographical, and expenditure data about the districts. Some of the sections in this report include information about students, school finance and staffing, and academic achievement.

S.C. School District Reviews

We found that some school districts in South Carolina have used SDE's publications to evaluate their efficiency or have obtained private contractors to conduct reviews. At the request of a district, SDE's office of school food services and nutrition will conduct a food service management review. However, we found no evidence that the majority of districts have been involved in these types of reviews. Some districts have used the data from InSite and the *Rankings* report to review district efficiency. They compared their administration and operational expenditures to similar districts to see if they were within the norm. One district found areas to reduce expenditures without affecting the amount of dollars flowing to the classroom. Another district found that it could operate more effectively through increasing services.

Spartanburg 7 School District

We found that Spartanburg 7 has conducted efficiency studies using the *Rankings* report and InSite data. Recent budget cutbacks required the district to find ways to reduce expenditures while trying to keep instructional dollars secure. District officials identified four districts that were similar to Spartanburg 7 and compared costs for operations, such as facilities management and food service. The district found areas where it could reduce expenditures while maintaining the amount spent for classroom instruction.

One area the district reduced was facilities maintenance, which it reorganized by reducing the number of staff. According to a district official, including salary and benefits, the district recognized a savings of \$160,000. Another area the district reviewed was food service. Officials found that they could

reduce expenditures for purchasing, preparing, and serving meals, resulting in an estimated reduction of 2¢ – 3¢ per meal.

Charleston School District

In August 2000, KPMG, a private contractor, conducted a management performance review of the Charleston county school district. The objectives of the study were to save funds, improve management, and increase efficiency and effectiveness. The audit found areas where the district could operate more effectively but found no overall cost savings. In fact, KPMG found that the total fiscal impact to the county of its recommendations would be an additional cost of \$518,000.

Other States' School District Review Programs

We found that other states have developed or are in the process of developing procedures for auditing school districts on a regular basis. Arizona's Auditor General's Office and Florida's Office of Program Policy Analysis and Government Accountability (OPPAGA) have reviewed areas such as administration, transportation, food service, and facilities operation and maintenance costs. California's Fiscal Crisis Management Team was created to help California's local education agencies meet their fiscal accountability standards. Arkansas is in the process of developing reviews of its school districts, and its process will replicate Florida's model.

Florida

In 2001, the Florida legislature enacted the *Sharpen the Pencil* program, which is intended to improve school district financial management and use of resources and to identify cost savings. The program requires each of Florida's 67 school districts to undergo a best financial practices review once every five years. OPPAGA and the Florida Auditor General jointly examine school districts to determine whether they are using best practices to evaluate programs, assess operations and performance, identify cost savings, and link financial planning and budgeting to district priorities. While funding for new reviews has been suspended for FY 03-04 and FY 04-05, OPPAGA continues to conduct follow-up reviews. The agency also publishes information briefs, most recently in May 2004, which highlight cost savings opportunities identified in the *Sharpen the Pencil* program.

According to an official from OPPAGA, as of November 2003, the projected five-year cost savings for Florida's *Sharpen the Pencil* program was \$761 million. Some examples of the types of savings identified for several of Florida's school districts over the next five years are listed below.

- The development of a strategic technology plan for Miami Dade county could save approximately \$28 million.
- The reduction of the employer cost of employee health benefits could save Manatee county approximately \$10 million.
- The reduction of custodial staffing to achieve a productivity level of 20,000 square feet per custodian could save Hillsborough county approximately \$6.5 million.
- The development of a review of the Individual Education Plan (IEP) process could save Orange county approximately \$5 million.
- The implementation of alternatives to new construction could save Brevard county approximately \$5 million.
- The implementation of a procurement card program could save Broward county approximately \$300,000.

The savings identified by the program stays at the district level and goes toward more funding for instruction. The official noted that the areas where most savings are found are operational areas, such as facilities management and transportation. Another area that is important to review, even though cost savings are limited, is performance accountability. Some districts do not have objectives or a process to measure goals. Good performance measures assess how a program is performing and if more or less funding should be allocated.

Arizona

Arizona's Auditor General's Office is required by legislation to audit its school districts to determine if the entities are achieving their objectives and managing their resources in an efficient manner. The office conducts performance audits of school districts and monitors the percentage of dollars spent in the classroom. The state's 236 school districts are required to submit their financial data and fill out a questionnaire. The office then places all of the data about the districts into a database so it is easier to compare the districts to those that are similar.

According to an official from the Arizona Auditor General's Office, 95% of the division's recommendations have been implemented and the state has recognized cost savings. One of the first school districts the office reviewed was very inefficient, particularly in the area of food service. The district even neglected to get routine health inspections. Since the first audit, the district has consistently improved management practices. The state recognized further savings when one of Arizona's largest districts, with approximately 75,000-80,000 students, conducted an efficiency review based on one of the Auditor General's findings. The Auditor General's Office found that, on average, Arizona school districts' plant operations cost 3% above the national average. The district decided to review its operations, and found that if it altered its utility plans it could save \$500,000.

California

California's Fiscal Crisis Management Team (FCMAT) was created by legislation to assist counties in reviewing troubled school districts. FCMAT's main purpose includes helping local education agencies fulfill their financial and management responsibilities, but its responsibilities have grown over the years to include preparing comprehensive assessments for school districts that received emergency loans from the state, providing fiscal training for district officials, and developing and maintaining two information systems. A June 2004 California State Auditor's review found that FCMAT produces recommendations that are valuable and should help improve school districts.

Conclusion

Evidence indicates that an ongoing process for measuring school district financial management can identify cost savings and provide other benefits. The savings identified by these evaluations could be used to increase the dollars spent in the classroom by school districts. The responsibility of conducting performance-based reviews could be assumed by existing entities, including the State Department of Education or oversight committees, such as the Legislative Audit Council. The LAC has previously reviewed K-12 operational management, for example, in the 2001 report *A Review of South Carolina School Bus Operations*. The costs of the reviews would primarily be for staff benefits and salaries. The cost savings and improved management procedures would likely more than pay for the cost of the program.

Recommendation

1. The General Assembly should consider establishing a process for South Carolina's school districts to be reviewed for efficient financial management on a regular basis.

Ways to Analyze School District Expenditures

Analysis of school spending patterns is a useful first step in reviewing operational efficiencies. We reviewed the expenditures of South Carolina school districts and found that the S.C. expenditures do not vary significantly from those of other states. Although there is agreement on the goal of increasing dollars to the classroom, there is no uniformly accepted definition of which expenditures are "dollars to the classroom." There is, however, a wealth of information available about expenditures for K-12 education. Both the state and federal government regularly publish information about how schools and school districts spend their money.

SDE's Information About School Spending

All South Carolina school districts use the same categories (accounting codes) for their expenditures. The expenditures are audited annually, and the State Department of Education uses a software program (In\$ite) to provide information on expenditures in the five categories listed below.

- INSTRUCTION — Teacher salaries and benefits and classroom books and materials.
- INSTRUCTIONAL SUPPORT — Guidance, library, student health, and staff training.
- OPERATIONS — Transportation, food service, safety, building maintenance, data processing, and business operations.
- LEADERSHIP — Principals, superintendents, and their deputies and assistants.
- OTHER COMMITMENTS — Capital expenditures and debt service.

This expenditure information is available on the SDE website (www.myschools.com) for all school districts and for the state as a whole. The categories with percentage of expenditures for the state are shown in Table 2.1.

Table 2.1: South Carolina School District Expenditures, FY 01-02

CATEGORY	AMOUNT*	PER PUPIL	PERCENT OF TOTAL
Instruction	\$2,840,801,391	\$4,354	60%
Instructional Support	604,077,707	926	13%
Operations	900,740,020	1,381	19%
Leadership	404,639,362	620	8%
Other Commitments	372,592	1	0%
TOTAL **	\$4,750,631,072	\$7,281	100%

* Does not include expenditures for capital/out of district obligations of \$1.6 billion, as these expenditures are not included in per pupil spending calculations.

** Totals may not add due to rounding.

Source: SDE.

The State Department of Education considers the categories of instruction and instructional support to be dollars used in the classroom. These categories accounted for 73% of the total. The In\$ite information is available for each school and school district and may be used to compare expenditures.

Federal Government Information About School Spending

Each year the State Department of Education reports expenditure data for the state to the federal National Center for Education Statistics (NCES). The NCES collects school finance data from all states and makes this information available to the public (www.nces.ed.gov). The NCES uses categories that are similar to, but different from, those used by the state. The NCES uses three general categories.

- INSTRUCTION — Teacher salaries and classroom materials.
- SUPPORT SERVICES — Most expenditures under SDE’s instructional support, operations, and leadership categories (see p. 8).
- NONINSTRUCTION — Primarily food service.

Expenditures in the United States for K-12 education are shown in Table 2.2. Like the state, the NCES does not include capital expenditures in per pupil expenditures.

Table 2.2: U.S. Expenditures for K-12 Education, FFY 00-01

CATEGORY	AMOUNT	PER PUPIL	PERCENTAGE
Instruction	\$214,239,936,000	\$4,539	62%
Support Services	119,340,347,000	2,528	34%
Noninstruction	14,590,045,000	309	4%
TOTAL*	\$348,170,327,000	\$7,376	100%

* Totals may not add due to rounding.

Source: National Center for Education Statistics.

Administrative Costs

Those who are interested in ensuring that dollars go to the classroom often focus on keeping administrative costs low. Just as there is no commonly accepted definition of “dollars to the classroom,” there is no commonly accepted definition of “administrative costs.” The federal government category of Support Services has several subcategories that can be used to review administrative costs. See Table 2.3 for a list of these categories and how these expenditures are categorized in South Carolina’s system of expenditure information.

Table 2.3: Expenditures in the NCES Support Services Category With Corresponding S.C. Categories

FEDERAL CATEGORY	STATE CATEGORY
Student Support	Instructional Support
Instructional Staff	Instructional Support, Leadership
Operations and Maintenance	Operations
Student Transportation	Operations
General Administration	Leadership
School Administration	Leadership
Other Support Services*	Operations, Leadership, Instructional Support**

* Other support services includes business support services and central support services, including planning, research, evaluation, information, and data processing services.

** Expenditures reported by the state in these categories include business services, data processing, superintendent and school board operating expenditures, and program support (planning).

The Arizona Auditor General has defined the NCES categories of general administration, school administration, and other support services to be administrative costs (text shown in bold in Table 2.3), and uses these costs to analyze school districts' administrative costs in its reviews of school district performance (see p. 6). South Carolina reports information to the NCES in these categories. Using Arizona's definition, in school year 1999-2000, South Carolina's administrative costs were 9.8% and the national average was 10.9%. As shown in Table 2.3, administrative costs reported to the NCES are categorized in South Carolina as the costs for leadership and portions of costs reported as operations and instructional support.

Conclusion

The expenditures of schools and school districts can be categorized in different ways. Reviewing expenditures for a school, a district, or the state in comparison with those of other schools, districts, or states is useful for general purposes, but does not in itself lead to definitive conclusions. Reviewing expenditures in various categories is an appropriate starting point for analysis. For example, in one category, food service, S.C. school districts' costs ranged from \$266 to \$749 per pupil in FY 01-02. Additional steps should be taken to determine the reasons for some districts' high costs, and whether there are ways to reduce them.

School District Consolidation

We reviewed the issue of school district consolidation to determine whether there would be cost savings if more districts combined. While there is evidence that per student costs tend to be higher in small districts, there are several factors that should be considered prior to implementing a policy of aggressive consolidation.

Background

There has been a general trend toward school district consolidation in South Carolina and around the country. Since 1960, the number of school districts in the United States has decreased from 40,000 to around 15,000. In South Carolina, the number of districts decreased from 108 in 1960 to 85 currently.

South Carolina's school districts are relatively consolidated compared to those in other states. In 1999-2000, South Carolina's median district size (4,367 pupils) ranked 5th among the states, and its average district size (7,753 pupils) ranked 10th. In fact, while 36% of U.S. school districts in 2000-2001 had fewer than 600 pupils, by 2001-2002 South Carolina had no district that small. As discussed on page 2, South Carolina's school districts are varied in their composition. One district, Greenville, ranks among the 100 largest school districts in the country (62nd in 2000), while others had fewer than 1,000 pupils in 2002.

Cost Factors in Consolidation

Evidence indicates that small school districts often pay more per pupil for operational costs. A 2003 Education Oversight Committee (EOC) study found that as South Carolina districts decreased in size, the cost of providing services increased. The only exception was in the very largest districts (more than 25,000 pupils), where cost per pupil was a little more than the state average. The strongest relationship between district size and cost per pupil was found in expenditures for leadership (principals and superintendents) and operations. These categories contain more fixed than variable costs. For example, the cost of maintaining a building remains relatively constant whether the building has a smaller or larger number of students. The cost for a superintendent of schools is higher per pupil in a district with fewer pupils.

The 20 smallest districts in the state (see Appendix A) are more likely to rank in the top 20 for cost per pupil, particularly in categories associated with operations. We looked at the SDE publication *Rankings* to determine which school districts had the highest cost per pupil in the following areas:

- District leadership.
- School leadership.
- Instruction and instructional support.
- Upkeep and maintenance.
- Food service.
- Transportation.
- Business services.

Six of the small districts were in the top 20 in at least five of the seven categories reviewed. The strongest relationship between the smallest districts and highest cost per pupil was in the category of district leadership (office of the superintendent). All 20 of the smallest districts were above the median cost per pupil in this category. However, we also noticed that some small districts have been able to keep their costs down. Five (Marion 2, Greenwood 52, Dillon 3, Florence 5, and Clarendon 3) of the 20 smallest districts were not in the top 20 in costs in any of the categories reviewed. See Appendix A for a chart of per pupil costs for various functions for each S.C. school district.

Recent South Carolina Consolidations

Recent South Carolina school district consolidations do not offer conclusive evidence that consolidation reduces costs. The most recent school district consolidations occurred in Orangeburg and Marion counties. In 1997, Orangeburg county consolidated from eight districts to three districts, and in 2001, two small districts consolidated in Marion county. We reviewed SDE's expenditure data for all of the Orangeburg districts beginning with the year prior to consolidation (1996-1997) and continuing through the most recent data available (2001-2002). There was not sufficient data to analyze the Marion consolidation. We found that total expenditures in the Orangeburg districts increased at a lower rate than expenditures for the state as a whole, but per pupil expenditures increased at a greater rate than for the state as a whole (see Table 2.4).

Table 2.4: Expenditures and Cost Per Pupil for Orangeburg School Districts and the State, FY 96-97 and FY 01-02

ENTITY	EXPENDITURES			PER PUPIL		
	FY 96-97*	FY 01-02	CHANGE	FY 96-97	FY 01-02	CHANGE
Orangeburg 3	\$24,361,214	\$30,917,319	26.9%	\$5,398	\$8,450	56.5%
Orangeburg 4	20,653,537	31,387,291	52.0%	\$4,933	\$7,581	53.7%
Orangeburg 5	50,246,076	64,566,228	28.5%	\$6,153	\$8,848	43.8%
Total Orangeburg	\$95,260,827	\$126,870,838	33.2%	\$5,648	\$8,404	48.8%
State of S.C.	\$3,381,758,403	\$4,750,631,072	40.5%	\$5,160	\$7,281	41.1%

* FY 96-97 expenditures are prior to consolidation. Orangeburg 3 includes Orangeburg 3 and 7, Orangeburg 4 includes Orangeburg 1, 4, and 8, and Orangeburg 5 includes Orangeburg 2, 5, and 6.

We found that the Orangeburg districts reduced their costs for district leadership by 31.5% from FY 96-97 to FY 01-02, but other costs (instructional support and safety) increased at a greater rate than for the state as a whole. Expenditures and per pupil costs in the Orangeburg districts may have been affected by the fact that the districts saw a 10% decrease in student population during the period, while the state’s pupil population decreased by just 4/10th of one percent.

Other factors that can affect the cost of consolidation are provisions requiring teacher salaries to be the same throughout the consolidated district or provisions forbidding schools to be closed after the consolidation. The legislation consolidating the Orangeburg districts required a single salary schedule, and the General Assembly also imposed detailed requirements to be met before any schools could be closed.

The 2003 Education Oversight Committee study projected that if all districts were consolidated so that no districts were smaller than 2,500 pupils, the state could realize a savings of \$25 million. However, this estimate was based on the consolidated districts’ costs per pupil being no greater than the average cost per pupil for the state. There are so many factors involved in school district costs, it is unclear whether such savings would actually occur or how long it would take before they were realized.

Student Performance

While some studies link school size and student performance, there is little evidence to indicate that the size of the school district has any effect on student achievement. The 2003 EOC study found that there was a relationship in S.C. middle and high school age students between school size and student performance. Those who attended smaller schools tended to perform better. The study found no such relationship at the elementary

school level and no relationship between district size and student achievement. Nationwide, other studies have found evidence that students from lower socio-economic groups tend to perform better in smaller schools and/or districts. Research primarily shows a correlation between *school* size and performance, not *district* size. It may be the case that consolidation of districts often leads to consolidation of schools, but that would not necessarily occur.

Other Factors

Members of the General Assembly and the public hold a variety of opinions about the desirability of school consolidations. For example, in the 2003-2004 legislative session, there was proposed legislation that would consolidate districts so that there would be one per county, and at the same time, other proposed legislation would have resulted in the break-up or deconsolidation of the state's two largest school districts. In addition to costs and pupil performance, there are other factors that influence the desirability of consolidating school districts.

Advantages other than savings cited for consolidation include:

- Small school districts do not have the capacity to offer the high quality and varied instructional programs that are needed by students.
- Consolidating at the county level would result in simplification from having fewer governing entities.

Disadvantages cited include:

- The consolidation process itself is very disruptive and leads to community turmoil.
- Many members of the public have strong social and cultural ties to their local schools which are threatened by consolidation.
- Local school board officials would no longer have input into governance of their local schools.

Incentives for Consolidation

While the General Assembly could simply mandate the consolidation of school districts of a certain size, as has recently been done in Arkansas for districts smaller than 350 students, it could also offer incentives for consolidation. Other states have offered incentives, such as increased funds for capital construction and operations to consolidating districts. According to officials, the S.C. Education Finance Act also encourages consolidation by underfunding small districts' costs for district administration.

Conclusion

Given the many factors at play in consolidating school districts, it is not clear that a movement for consolidation should be a top priority for the state's education efforts. While operating costs could be somewhat lower if all districts were above a certain size, it is not certain that these savings would be realized. It could be more fruitful for all school districts to increase their efforts to evaluate and monitor their efficiency in delivering services (see p. 3). Consolidations might be more successful if undertaken on a case-by-case basis, with community support and identified benefits.

Consolidation of State Funding

Many streams of state funding for K-12 education are disbursed to the 85 school districts in separate allocations. The State Department of Education (SDE) identified more than 100 state funding sources. This does not include 30 additional allocations of federal funds. A more consolidated funding mechanism would have the advantage of simplification and perhaps more efficient and effective use of resources. However, any simplification would have to be accompanied by adequate accountability controls to ensure that state funds are used effectively to improve education and in accord with the intent of the General Assembly. Provisos in the Appropriations Acts since FY 02-03 have given school districts some flexibility in the use of their funds.

Having many streams of funding, each with its own requirements, can create problems for school districts. Each source of funds is allocated and tracked separately, which results in more complex accounting records. More importantly, a school district may have additional funds which were designated for one program that could not be used to cover another program's shortfall. This would result in the funds not being used in the most effective manner. SDE employees and school district employees we contacted identified advantages of consolidated state funding.

- The accounting process would be simplified.
- The districts could have discretion to fund programs and services that would most benefit their students.
- The districts would be more directly accountable for their student scores and school ratings.

Although simplification of funding and flexibility to the districts could be beneficial, there may be some potential disadvantages if state funds were consolidated. SDE and school district employees identified the following disadvantages.

- Funding for specific programs such as gifted and talented, adult education, reading recovery, etc. may be “ignored” if the school or district does not find these programs to be priorities.
- Districts may lose the ability to track funding for programs if the funding is not separated.
- No significant cost savings from consolidation have been identified for either SDE or the districts.

Districts

We contacted six district finance directors and/or superintendents to obtain their views regarding possible consolidation of state funding. According to these officials, they would welcome consolidated state funding with more discretion regarding the use of the money. Some officials were not opposed to continued or increased programmatic monitoring by SDE as long as they had total flexibility over the funds. Suggestions from the districts included:

- Offering districts a “menu” of programs from which to choose what was best for their particular students.
- Removing state restrictions and mandates.
- Holding the districts accountable based on student scores and school ratings.

If funding were consolidated, a potential problem could arise when the state mandates a new statewide education initiative. It is unclear whether districts would be told to fund the initiative with the funds already allocated, an unfunded mandate, or if the General Assembly would add another line item of funding, thus starting a new cycle of creating multiple funding sources.

To ensure that districts continued to offer programs and services established by the General Assembly with consolidated funding, SDE would have to provide appropriate controls. These controls could be offered through state regulation, the defined program, or written guidelines. The department would also have to more closely monitor schools and districts to ensure that students are being served properly. As discussed on page 3, the state does not have an adequate process for ensuring that school districts operate efficiently. Each district is, however, audited annually by a certified public accountant. These audits of the existing funding sources provide some assurance that funds are used as intended.

Flexibility Proviso

In FY 02-03, proviso 1.67 of the Appropriations Act gave districts some flexibility in funding by allowing them to transfer up to 20% of funds between programs to any instructional program with the same funding source. In FY 03-04, proviso 1.63 of the Appropriations Act expanded this flexibility, allowing districts to transfer up to 100% of funds between programs to any instructional program, provided the funds are used for direct classroom instruction. SDE's FY 03-04 funding manual provides further guidance regarding this flexibility and excludes some fund sources. For example, the following are excluded from flexibility.

- Lottery funds.
- Federal funds.
- National board certification salary supplements.
- Funds for principal/teacher specialists.

Proviso 1.61 in the FY 04-05 Appropriations Act allows the districts the same ability to transfer funds as the FY 03-04 proviso, but contains new language restricting the use of grants or technical assistance funds allocated directly to an individual school. According to some district officials we contacted, the proviso has been helpful to them; however, it did not allow for enough flexibility.

Education Oversight Committee Study

The Education Oversight Committee (EOC), pursuant to a proviso in the FY 03-04 Appropriations Act, is to review the utilization of the flexibility provision to determine how it enhances or detracts from the achievement of the goals of the educational accountability system. According to an EOC official, the districts transferred just 5.6% of the approximately \$368 million eligible for transfer in FY 03-04.

Conclusion

While consolidating state funding would simplify the process, the General Assembly should consider the implications of changing the current method of funding. The districts may want more flexibility in their spending, but the state should ensure that proper controls are in place before this flexibility is offered to make certain that students in South Carolina are adequately served.

Recommendations

2. The General Assembly should consider establishing the current flexibility provisions into permanent law.
3. If the General Assembly decides to consolidate state funding to the districts, it should provide for the establishment of appropriate management controls to ensure accountability.

Per Pupil Cost by Function and School District FY 01-02

DISTRICT	PUPILS	INSTRUCTION	INSTRUCTIONAL SUPPORT	OPERATIONS	LEADERSHIP	TOTAL	CAPITAL AND DEBT SERVICE***
Abbeville	3,707	\$4,398	\$949	\$1,332	\$639	\$7,318	\$2,637
Aiken	23,890	\$4,054	\$693	\$1,158	\$495	**\$6,403	\$1,962
Allendale*	1,823	\$5,511	\$1,406	\$2,344	\$1,143	\$10,404	\$504
Anderson 1	7,508	\$3,764	\$913	\$1,050	\$523	\$6,250	\$1,685
Anderson 2	3,589	\$4,213	\$788	\$1,295	\$727	\$7,023	\$7,688
Anderson 3	2,573	\$3,775	\$840	\$1,187	\$505	\$6,307	\$4,440
Anderson 4	2,680	\$4,225	\$889	\$1,630	\$617	\$7,361	\$2,615
Anderson 5	11,120	\$4,415	\$1,072	\$1,404	\$532	\$7,423	\$1,572
Bamberg 1*	1,671	\$4,532	\$684	\$1,535	\$884	\$7,635	\$2,912
Bamberg 2*	1,063	\$5,178	\$1,583	\$2,289	\$1,342	\$10,392	\$769
Barnwell 19*	979	\$4,860	\$1,088	\$1,591	\$1,010	\$8,549	\$1,563
Barnwell 29*	948	\$4,434	\$826	\$1,597	\$923	\$7,780	\$1,257
Barnwell 45	2,702	\$4,417	\$664	\$1,115	\$653	\$6,849	\$611
Beaufort	16,498	\$4,691	\$1,153	\$1,523	\$748	\$8,115	\$2,752
Berkeley	25,984	\$4,057	\$904	\$1,362	\$513	\$6,836	\$3,335
Calhoun*	1,972	\$5,047	\$1,312	\$1,695	\$865	\$8,919	\$1,212
Charleston	41,831	\$4,450	\$951	\$1,357	\$615	\$7,373	\$2,863
Cherokee	8,817	\$4,232	\$802	\$1,447	\$601	\$7,082	\$1,114
Chester	6,369	\$4,695	\$777	\$1,246	\$630	\$7,348	\$823
Chesterfield	7,932	\$4,190	\$948	\$1,238	\$614	\$6,990	\$3,208
Clarendon 1*	1,243	\$4,672	\$917	\$1,596	\$1,372	\$8,557	\$1,987
Clarendon 2	3,525	\$3,879	\$721	\$1,179	\$562	\$6,341	\$1,450
Clarendon 3*	1,189	\$4,134	\$969	\$1,301	\$629	\$7,033	\$2,127
Colleton	6,639	\$4,235	\$753	\$1,386	\$682	\$7,056	\$1,661
Darlington	11,420	\$4,344	\$1,002	\$1,254	\$645	\$7,245	\$1,126
Dillon 1*	900	\$3,940	\$839	\$1,344	\$772	\$6,895	\$499
Dillon 2	3,688	\$3,634	\$766	\$1,501	\$572	\$6,473	\$407
Dillon 3*	1,488	\$3,631	\$1,103	\$1,096	\$679	\$6,509	\$1,745
Dorchester 2	16,668	\$3,913	\$778	\$1,125	\$431	\$6,247	\$1,104
Dorchester 4	2,425	\$4,938	\$1,004	\$1,710	\$936	\$8,588	\$1,262
Edgefield	3,929	\$4,402	\$1,028	\$1,536	\$737	\$7,703	\$1,302
Fairfield	3,622	\$5,044	\$1,007	\$2,379	\$1,057	**\$9,518	\$640
Florence 1	13,622	\$4,288	\$972	\$1,168	\$583	\$7,011	\$1,083
Florence 2*	1,083	\$4,460	\$760	\$1,438	\$779	\$7,437	\$1,799
Florence 3	4,124	\$4,159	\$899	\$1,472	\$832	\$7,362	\$584
Florence 4*	1,073	\$5,837	\$1,107	\$1,595	\$1,249	\$9,788	\$1,411
Florence 5*	1,438	\$4,300	\$1,161	\$1,305	\$676	\$7,442	\$1,272
Georgetown	9,859	\$4,844	\$1,082	\$1,783	\$868	\$8,577	\$2,522
Greenville	59,736	\$3,890	\$758	\$1,198	\$526	\$6,372	\$3,050
Greenwood 50	8,805	\$4,190	\$988	\$1,156	\$540	\$6,874	\$658
Greenwood 51*	1,198	\$4,343	\$1,107	\$1,422	\$877	\$7,749	\$199
Greenwood 52*	1,626	\$4,044	\$1,044	\$1,001	\$611	\$6,700	\$3,270
Hampton 1	2,606	\$4,635	\$923	\$1,177	\$872	\$7,607	\$533
Hampton 2*	1,444	\$4,579	\$1,119	\$1,881	\$1,067	\$8,646	\$401
Horry	28,466	\$4,564	\$887	\$1,514	\$581	\$7,546	\$3,157
Jasper	2,839	\$4,531	\$1,000	\$1,541	\$751	\$7,823	\$753
Kershaw	9,665	\$3,966	\$812	\$1,259	\$625	\$6,662	\$3,307
Lancaster	10,800	\$4,214	\$813	\$1,222	\$639	\$6,888	\$2,835
Laurens 55	5,792	\$4,187	\$859	\$1,238	\$750	\$7,034	\$2,335

Appendix A
Per Pupil Cost by Function and School District FY 01-02

DISTRICT	PUPILS	INSTRUCTION	INSTRUCTIONAL SUPPORT	OPERATIONS	LEADERSHIP	TOTAL	CAPITAL AND DEBT SERVICE***
Laurens 56	3,349	\$4,073	\$875	\$1,337	\$778	\$7,063	\$680
Lee	2,870	\$5,209	\$1,159	\$1,550	\$985	\$8,903	\$740
Lexington 1	17,269	\$4,474	\$993	\$1,304	\$438	\$7,209	\$6,074
Lexington 2	8,694	\$4,842	\$1,088	\$1,493	\$591	\$8,014	\$2,955
Lexington 3	2,262	\$4,517	\$1,136	\$1,486	\$1,051	\$8,190	\$1,445
Lexington 4	3,321	\$3,766	\$1,000	\$1,511	\$664	\$6,941	\$1,871
Lexington 5	14,756	\$4,554	\$1,160	\$1,406	\$574	\$7,694	\$2,332
McCormick*	1,068	\$4,801	\$1,827	\$1,670	\$1,130	\$9,428	\$1,849
Marion 1	3,180	\$4,345	\$803	\$1,264	\$471	\$6,883	\$463
Marion 2*	2,152	\$4,308	\$1,237	\$1,334	\$679	\$7,558	\$607
Marion 7*	959	\$5,528	\$1,262	\$1,804	\$1,144	\$9,738	\$1,542
Marlboro	5,141	\$3,921	\$808	\$1,376	\$680	\$6,785	\$899
Newberry	5,750	\$4,648	\$932	\$1,531	\$740	\$7,851	\$511
Oconee	10,071	\$4,758	\$1,092	\$1,570	\$702	\$8,122	\$1,186
Orangeburg 3	3,659	\$4,863	\$1,023	\$1,779	\$784	\$8,449	\$678
Orangeburg 4	4,140	\$4,421	\$973	\$1,565	\$623	\$7,582	\$1,575
Orangeburg 5	7,297	\$5,019	\$1,490	\$1,552	\$786	\$8,847	\$3,523
Pickens	15,755	\$4,053	\$813	\$1,178	\$499	\$6,543	\$808
Richland 1	25,672	\$5,381	\$1,200	\$1,906	\$774	\$9,261	\$4,362
Richland 2	17,657	\$4,384	\$817	\$1,620	\$591	\$7,412	\$2,282
Saluda*	2,086	\$4,628	\$892	\$1,682	\$961	**\$8,226	\$2,472
Spartanburg 1	4,379	\$4,821	\$918	\$1,259	\$508	\$7,506	\$1,331
Spartanburg 2	8,081	\$3,643	\$669	\$1,158	\$481	\$5,951	\$756
Spartanburg 3	3,123	\$4,631	\$1,355	\$1,778	\$799	\$8,563	\$1,587
Spartanburg 4	2,853	\$3,839	\$724	\$1,190	\$679	\$6,432	\$592
Spartanburg 5	5,755	\$4,718	\$902	\$1,205	\$593	\$7,418	\$1,831
Spartanburg 6	9,109	\$4,164	\$702	\$1,138	\$499	\$6,503	\$4,019
Spartanburg 7	8,510	\$4,901	\$1,021	\$1,486	\$607	\$8,015	\$14,686
Sumter 2	9,173	\$3,816	\$1,091	\$1,329	\$576	\$6,812	\$2,016
Sumter 17	8,689	\$4,207	\$953	\$1,350	\$556	\$7,066	\$988
Union	4,967	\$4,598	\$894	\$1,278	\$664	\$7,434	\$635
Williamsburg	6,112	\$4,260	\$1,001	\$1,463	\$723	\$7,447	\$280
York 1	4,967	\$4,245	\$857	\$1,261	\$602	\$6,965	\$1,156
York 2	4,600	\$5,561	\$1,059	\$1,553	\$726	\$8,899	\$2,434
York 3	14,984	\$4,111	\$725	\$1,350	\$564	\$6,750	\$3,748
York 4	5,506	\$4,161	\$844	\$1,489	\$517	\$7,011	\$4,362
MEDIAN	4,379	\$4,398	\$949	\$1,404	\$664	\$7,412	\$1,563

* One of the 20 smallest districts.

** Total includes a small amount of uncategorized other expenditures.

*** Capital and debt service expenditures are not included in total per pupil costs.

Source: SDE.

Agency Comments

Appendix B
Agency Comments



STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

INEZ MOORE TENENBAUM
STATE SUPERINTENDENT OF EDUCATION

August 31, 2004

Mr. George Schroeder
South Carolina Legislative Audit Council
1331 Elmwood Avenue
Suite 315
Columbia, South Carolina 29201

Dear Mr. Schroeder:

Please find enclosed the State Department of Education's response to the Legislative Audit Council's Report, Issues of Efficiency and Accountability Relating to School Districts. We appreciate the opportunity to respond to the audit's findings and recommendations.

Very truly yours,

A handwritten signature in cursive script that reads "Inez Tenenbaum".

Inez Tenenbaum
State Superintendent of Education

IMT/ems
Enclosure

State Department of Education's Response to the Legislative Audit Council's Draft Report

The State Department of Education (SDE) appreciates the opportunity to respond to the Legislative Audit Council's (LAC) report. We certainly welcome any suggestions that might enhance the more effective and efficient use of state funds.

Accountability process for school district financial management

The Audit Council recommends the establishment of a process for the state's school districts to be reviewed for efficient financial management on a regular basis. Examinations of the various states' audit programs described by the LAC illustrate the significant level of staff and resources needed to establish a quality routine performance audit process.

Arizona's performance audits are conducted by a staff of 16 people who do six to eight comprehensive audits per year (averaging 2,300 staff hours per audit). California's Fiscal Crisis and Management Assistance Team (FCAMAT) conducted 72 reviews in FY 2003–04, with an average of 54 annually over the past three years. This group has a staff of 17, draws on approximately 70 consultants, and also utilizes private consulting firms when necessary. Supported by the state with an average of \$3 million annually, its legislation allows it to charge for its management performance reviews. The current charge is \$400 per day per staff member, plus expenses.

To implement a five-year cycle of South Carolina's 85 districts would require that 1.5 audits be completed each month. Comprehensive effectiveness and efficiency audits are not easily completed at such a clip, even in smaller districts. Arizona, for example, averages one audit every two months with its staff of 16 people. That state has 317 school districts and 1,928 schools.

The SDE has performed management reviews of various aspects of district operations when requested by local districts. Agency staffing cuts in the 1990s reduced the review staff from 17, down to 8, so reviews were curtailed and now are conducted only when severe problems become apparent. Efforts in recent years to restore the office to a size that could provide performance audits and give technical assistance to all districts have been thwarted by budget cuts to the agency.

In South Carolina, the responsibility for managing a school district is given to local boards of trustees (Section 59-19-10 of the Code of Laws). The LAC report does not include a description of the involved budget development process and the approval of local district budgets by local school boards or county councils. The report also downplays the fact that school districts already compare spending in various categories to maximize the dollars going to the classroom.

The LAC report comments that the wide range of per-pupil costs for food service shown among the school districts is a reason why comparisons of expenditures among school districts can be useful. The example also illustrates that reviewing only financial data can be very misleading. The circumstances and complexity of school district operations must be taken into consideration. For example, some school districts serve many of their students two meals each day, plus snacks in after-school programs. Other districts serve only one meal a day to most students. This means the per-pupil costs can appear to indicate a problem when, in fact, the per-meal costs are quite similar.

The LAC stresses the differences in the ways school district expenditures are categorized. The SDE thinks it important to emphasize that, generally, whatever groupings are used, South Carolina's expenditures for administration are less than the average nationally. South Carolina was the first state in the nation to implement any kind of system like In\$ite, developed by the accounting firm Coopers & Lybrand, to make district expenditure information easily obtainable and understandable. From the outset, all of the parties involved, including the South Carolina Chamber of Commerce and the South Carolina School Boards Association, stressed that both the Instruction and Instructional Support categories were classroom expenditures.

School district consolidation

Overall, the LAC has done a comprehensive job of presenting the complexities and issues involved in considering further district consolidations in South Carolina. As the audit notes, the impact of consolidations goes beyond economic and educational issues to include political, social, and cultural considerations that might affect neighborhoods and entire communities.

Consolidation of state funding

The advantages and disadvantages of consolidating state K–12 funding to school districts are also clearly presented in the LAC report. SDE auditors believe that the more consolidated the K–12 funding stream becomes, the more difficult it would be to monitor local expenditures and evaluate the efficiency and effectiveness of specific programs. It also makes it more complicated to review a school district's financial management, an undertaking the LAC recommends in the first section of its report.