



HAWAI‘I EDUCATIONAL POLICY CENTER
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Perspectives #9

Saving Money by Better Monitoring: Results of an Audit of DOE Programs by PriceWaterhouseCoopers

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[Perspectives are quick takes on Reinventing Education (Act 51) issues that are in transition. These issues will be revisited periodically as new developments warrant.]

Decentralizing the state Department of Education means giving schools discretionary control over a higher percentage of funds. Without control over their expenditures, schools' decision-making capabilities will be in name only.

In a report entitled "Audit of the Decentralization Efforts of the Department of Education (1998)," the Hawaii State Auditor found that schools surveyed had discretionary control over just 4% of their expenditures. In 2003, the DOE estimated principals had discretionary control over about 15%.

Starting in 06-07, the DOE says schools will have discretionary control over 48% of its \$1.6 billion budget. This figure includes salaries and fringe benefits. The 4% and 15% numbers cited above do not include salaries and fringe benefits. If we subtract salaries and fringe benefits from the 48%, there appears to be little difference in the percentage of funds principals currently have discretionary control over and the percentage they will control next year.

So what can be done to accelerate decentralization by giving individual schools control over a greater percentage of funds and the ability to use these funds as they see fit to best meet the needs of their students?

There are three ways to get more discretionary funds into the hands of principals. One way is for the legislature to increase the \$1.7 billion (including debt servicing and capital improvements) it appropriates for secondary education. While some say our schools are underfunded, others say the problem is not the amount of funding, but, rather, how effectively the funds are used by the DOE. Will more funds increase the pot of money going to schools? The answer is unclear, and the debate continues.

Two, the legislature could stop the practice of telling the DOE how it must spend money. Categorical funds are earmarked primarily by the state legislature for specific programs and amount to 24%. The State Auditor, the DOE, and some legislators have called for abolishing categorical funding.

Three, the DOE could provide increased oversight of its own programs and better fiscal monitoring and accountability. Simply put, by watching its pennies more vigilantly, the DOE should be able to find more money to go into the discretionary pot.

Numerous reports by the State Auditor have questioned the adequacy of the DOE's data collection and monitoring. A 2003 report concluded "the department has yet to develop a comprehensive program analysis and evaluation system."

Now a recently released review of DOE programs by PriceWaterhouseCoopers, an independent auditing/consulting firm, confirms the Auditor's observations.

The report observes the DOE "is challenged to maintain and improve its internal control environment to achieve more effective and efficient operations, reliable financial reporting and regulatory compliance." It points out DOE program managers, charged with monitoring, reviewing and approving expenditure plans for their particular programs, are failing to provide this oversight for the most part. The report recommends the DOE strengthen organizational accountability at all levels and layers of operation.

Over time large organizations become filled with silos—offices and programs disconnected from one another. This leads to duplication of effort, overlap of programs, blurred lines of responsibility and accountability, and, ultimately, to waste and inefficiency. The organization (in this case the state DOE) falls prey to structural confusion but has little time to improve its own systems and structure because of the numerous demands and responsibilities on it.

Hopefully, the legislature, the Board of Education and others will act quickly to help the DOE revamp its infrastructure so it can operate more efficiently and effectively. Money saved is money that can increase the pot of discretionary funds available to schools.

(In *Perspective #10*, we will look at recommendations relating to DOE budgeting and accounting procedures made by the State Auditor and most recently by PriceWaterhouseCoopers.)