DOCUMENT RESUME

ED 474 382 UD 035 533

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| TITLE | Grand Theft Education: Wasteful Education Spending in California. |
| INSTITUTION | Pacific Research Inst. for Public Policy, San Francisco, CA. |
| PUB DATE | 2002-11-00 |
| NOTE | 46p. |
| AVAILABLE FROM | Pacific Research Institute for Public Policy, 755 Sansome Street, Suite 450, San Francisco, CA 94111. Tel: 415-989-0833; Fax: 415-989-2411; e-mail: pripp@pacificresearch.org; Web site: http://www.pacificresearch.org. |
| PUB TYPE | Reports - Descriptive (141) |
| EDRS PRICE | EDRS Price MF01/PC02 Plus Postage. |
| DESCRIPTORS | Academic Achievement; Accountability; Class Size; *Educational Finance; Elementary Secondary Education; *Financial Support; Sanctions; School Choice; School Desegregation; School Districts; State Government |
| IDENTIFIERS | *California; California (Emeryville); Categorical Special Education; Fresno Unified School District CA; Los Angeles Unified School District CA; San Francisco Unified School District CA |

ABSTRACT

This paper asserts that California's system of education funding is rife with waste. A state commission found that the system was "convoluted--driving up administrative costs, diverting attention from educational concerns, and depriving the public of readily accessible, comparative information." The paper suggests that the California Department of Education contributes to this problem by acting as a conduit of state funds rather than an enforcer of the rules meant to guarantee the lawful use of those funds. This paper focuses on oversight problems; fraud; failure to implement compliance review; categorical programs; desegregation dollars; class size reduction spending; sanctions for failing schools; categorical program flexibility transfers; abuses at the district level (San Francisco Unified School District, Los Angeles Unified School District, Fresno Unified School District, Emeryville Unified School District, and Orchard School District); how state irresponsibility fuels district waste; and how legislators can stop waste and help children (e.g, parental choice in education. (Contains 13 tables). (SM)

BRIEFING

Pacific Research Institute

# GRAND THEFT EDUCATION

## WASTEFUL EDUCATION SPENDING IN CALIFORNIA

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November 2002

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## EXECUTIVE SUMMARY

California's system of education funding is rife with waste. A state commission found that the system "is convoluted – driving up administrative costs, diverting attention from educational concerns and depriving the public of readily accessible, comparative information."

The California Department of Education (CDE) contributes to this problem by acting as a mere conduit of state funds rather than an enforcer of the rules meant to guarantee the lawful use of those funds. Because of this mentality, the CDE's operations have been marked by a variety of glaring deficiencies:

- A district or non-profit may have a history of misusing state and federal funds. Yet, because of the conduit mentality, the misconduct may be overlooked and funding continued.
- The CDE has not had a comprehensive central tracking system to determine the status and results of its monitoring activities.
- In the past the CDE has failed to conduct sufficient on-site audits of non-profits that receive state and federal funds. From 1994 to 1998, the CDE's audits division conducted zero on-site audits of school districts.
- Even where school districts are cited for fiscal improprieties, the CDE has been negligently lax in requiring offending districts to correct their problems. In one case, a district did not correct its problems until 575 days after the CDE's initial review.
- Few districts are sanctioned for failure to fix their problems.

Because of its failure to monitor adequately how taxpayer funds are spent, the CDE has made it impossible to determine the true extent of wasteful education spending.

Another state-level problem is the earmarking of funds through more than 60 state categorical programs. The state Legislative Analyst's Office has found no conclusive evidence of the success of categorical programs. Such programs blur accountability, restrict local flexibility, fragment local programs, and create negative incentives that encourage local districts to act in ways not in the best interests of students.

Many school districts that have received state desegregation dollars have abandoned busing programs because they have failed to improve student achievement. Research has shown that the state's massively expensive class-size-reduction program has largely failed to raise student performance. The state's school accountability program allocates hundreds of millions of dollars to low-performing schools with the barest hint that sanctions will be imposed if those schools fail to improve.

Waste is also common at the local level:

- The superintendent of the San Francisco Unified School district concedes that there have been no spending controls and that finances have been in chaos. Abuses include $68 million in bond money intended for facilities but spent instead on salaries and perks for non-teachers. San Francisco also spent $100 million in bond funds on projects that went over budget or were never mentioned to voters.
- The Los Angeles Unified School District has been a "dysfunctional organization," according to a state commission, with top-heavy management and some positions with no job description. The district has shown little accountability, spending nearly $200 million on a single high school.
- The Emeryville district in the Bay Area hired a superintendent who had left another district saddled with debts and in receivership. He promptly turned Emeryville's surplus into a hefty deficit.

None of the CDE's oversight mechanisms were able to prevent these and many other abuses at the local level.

A market-oriented school choice program would eliminate a great deal of wasteful government education spending. Instead of government officials funneling money into wasteful programs year after year, parents using school-choice opportunity scholarships would be able to direct those dollars to the private or public school of their choice. A choice system would reward schools that demonstrate their ability to increase student achievement and meet the interests of parents.

## INTRODUCTION

Californians have a vital interest in the achievement of students, who represent the future of the Golden State. The education of those students, by law, represents the government's biggest expenditure. California parents and taxpayers, who provide the money, also have a vital interest in knowing whether these funds are spent wisely, in a way that will benefit California's children. And if funds reserved for the education of children are wasted, that also concerns policymakers, legislators and the media.

- California spends more than $50 billion annually to support a public school system that educates approximately six million K–12 students in more than 8,000 schools run by 988 school districts.
- This immense system, the nation's biggest, also includes approximately 285,000 teachers, 22,000 administrators, and about 300,000 other employees.[1]
- In 2001–02, total K–12 funding from all sources (state, federal, and local) stands at $53.7 billion, an increase of $3.8 billion over 2000–01.[2]
- Total 2001–02 per-pupil expenditures from all sources are $9,293.[3]
- The state budget provides an additional $3.98 billion in funding in 2001–02 above the Proposition 98 minimum guarantee.[4]

The majority of the total $53.7 billion, nearly 85 percent, is from state general revenues and local taxes. These include state sales and income taxes, local property taxes (which are allocated by the legislature), federal funds, miscellaneous local income, and the California Lottery. It is possible for these funds to be wasted in different ways and places.

**TABLE 1**

**FUNDING FOR CALIFORNIA'S K-12 SCHOOLS (2001-02)**

| K-12 funding sources | Revenue |
|---|---|
| State funds: comes mostly from California sales and income taxes | $32.2 billion |
| Local property taxes which state lawmakers allocate to schools | $12.4 billion |
| Local miscellaneous revenues includes community contributions, interest income, developer fees, and revenues from local parcel tax elections | $2.8 billion |
| Federal government funds generally earmarked for special purposes | $5.4 billion |
| Lottery projected at about $128 per student (ADA) to be used for instructional programs and materials | $0.8 billion |
| Total estimated revenues for 2001/02 | $53.7 billion |

Source: EdSource Report, "School Finance 2001-02," November 2001
Projected California public school average daily attendance (ADA)** for 2001-02: 6.17 million students
*Due to rounding, the items do not add to the total exactly*
*This total includes funding for adult education
**This is based on the ADA calculation used by the Department of Finance and includes Adult Education and Regional Occupation Program (ROP) students

At the local level, school districts hire personnel, acquire materials, and build facilities. Administrators may spend tax money to hire unproductive staff, purchase ineffective curricula, or construct poorly planned buildings. A prime example of local waste is the Belmont Learning Center in Los Angeles, the nation's most expensive high school. Belmont was built at a cost of $154 million, plus some $20 million in attorneys' fees, but abandoned in January 2000 because of on-site pollution from an old gas field. The Los Angeles Unified School District wants to spend another $87 million to finish the project, boosting the total cost of the school, which has yet to serve a single student, to nearly $300 million dollars.[5]

In contrast, education spending at the state level mainly involves disbursement of funds to the local districts. In this case, wasteful spending usually involves bad decisions about how and where to direct tax dollars. The structure that the state has constructed to direct those tax dollars is enormous, complex, counterproductive, and expensive.

The Little Hoover Commission, the state's accountability watchdog agency, examined California's education funding system and found that the present funding system is convoluted – driving up administrative costs, diverting attention from educational concerns, and depriving the public of readily accessible, comparative information. Further, the Commission observed that the state's method of distributing funds is fundamentally flawed:

> Money reaches districts, school campuses and individual classrooms through complex formulas that are difficult to understand and that are constantly manipulated by state policy makers, state bureaucrats, school administrators and outside consultants. The convoluted system is very difficult for the public to understand – and therefore to trust and support. In addition, the system is expensive for the State to administer and oversee for fiscal accountability. The same is true for districts, whose decisions are sometimes driven by financial factors that have only a tenuous connection with educating children.[6]

University of Southern California education professor Lawrence Picus, an expert in education finance, observes that "The current school finance system may be resilient, but few would defend its coherence or overall efficacy."[7]

Many of the education spending problems at the state level fall into two principal categories. First, there is the actual mismanagement of education dollars by state agencies and officials. Poor oversight of state funds disbursed to local districts is a key failing. Second, there are the numerous problems associated with earmarking of education dollars through dozens of categorical funding programs, many of which have no accountability mechanisms to ensure that taxpayer funds are being spent in the most effective manner.

Although some effort has been made by lawmakers and education officials to address the entrenched problems of state-level education spending, many of the fundamental weaknesses remain.

## OVERSIGHT PROBLEMS

The California Department of Education (CDE) oversees the distribution of both state and federal program dollars to local school districts. Under California's education finance system, school districts receive two types of funding. The majority consists of revenue limits, funds that districts may use for any purpose at their discretion. The rest of the funding comes in the form of categorical aid earmarked for specific purposes such as reducing class size or purchasing instructional materials. These funds come with a host of regulations with which recipient districts must comply.

California law entrusts the CDE with responsibility to ensure compliance with categorical funding requirements. A narrow definition of wasteful spending, in this case, would focus on whether tax dollars appropriated for a particular purpose actually go to meet that purpose. Until recently, the performance of the CDE on compliance enforcement and oversight has been spotty or non-existent.

In 2000, the California State Auditor's Bureau of State Audits (BSA) released a disturbing report on the CDE's oversight record. The BSA repeatedly cited the CDE for "flawed" practices, including the absence of "an overall view of its monitoring activities because it has no comprehensive tracking system" of how state and federal funds are used.[8] In its official responses, the CDE claims that it is taking steps to rectify these inadequacies. However, for years the department monitored loosely, or not at all, the spending of tens of billions of dollars in state and federal money.

**The BSA repeatedly cited the CDE for "flawed" practices, including the absence of "an overall view of its monitoring activities because it has no comprehensive tracking system" of how state and federal funds are used.**

Indeed, in just one year, 1999–00, the CDE was responsible for overseeing $26 billion in state and federal program funds. About one-third of total education spending in California consists of state and federal categorical aid. From 1990–01 to 2000–01, total K–12 revenues for education in California amounted to approximately $380 billion. Using the one-third rule, more than $120 billion was spent on categorical programs.

How much of this $120 billion or so was wasted or misused? It is impossible to know because of the CDE's porous monitoring and accountability system. Given the huge amount of taxpayer dollars involved, it is worthwhile to take a closer look at the specific shortcomings of the CDE's oversight activities.

The BSA report makes clear that there were fundamental problems with the CDE's monitoring efforts. First and foremost was the department's philosophy regarding oversight procedures. According to the report:

> The Department of Education's philosophy and approach toward monitoring entities receiving state and federal funds do not allow it to adequately determine whether these funds are spent properly. The approach places little emphasis on ensuring the accountability of those receiving funds, or on the planning and evaluation of the department's own monitoring activities. There is limited assurance that the department uses its resources efficiently to monitor these organizations and that its efforts provide maximum value. As a result, the department cannot ensure that recipients appropriately use funds to meet the needs of eligible children and adults.[9]

What exactly in the CDE's monitoring philosophy undermined the construction of an effective oversight program? The report observes that rather than emphasizing the need for recipients to comply with funding requirements, the CDE simply focused on ensuring that it distributed state and federal funds to school districts and nonprofits and provided technical assistance to these entities where needed.[10] In other words, the department satisfied itself with being a mere conduit for money, a kind of courier service, rather than a principled enforcer of the rules meant to guarantee the lawful use of those funds.

**In other words, the department satisfied itself with being a mere conduit for money, a kind of courier service, rather than a principled enforcer of the rules meant to guarantee the lawful use of those funds.**

Only minimal assessments of fiscal, administrative, or internal controls were addressed in the CDE's reviews of funding recipients. In an interview with the BSA staff, the CDE's chief deputy superintendent stated that the department was shifting its focus from mandating strict compliance with state and federal requirements to "measuring accountability by student achievement."[11]

The Pacific Research Institute and the authors of this paper have been strong advocates of student performance, measured by standardized tests, as a means of accountability. However, it is one thing to base rewards and sanctions for schools on student performance, but quite another to assume that taxpayer funds are being spent well and according to funding requirements simply because students may be scoring high on state exams. It may be, in fact, that students are performing well in spite of, rather than because of, school and district spending decisions and procedures.

Proper oversight of spending practices cannot be replaced with assumptions based on factors, such as student performance, that may be unconnected to those practices. Indeed, the BSA points out that despite the importance of student achievement, "emphasizing the end results while ignoring the means used to achieve them will diminish the department's ability to effectively monitor the use of state and federal funds."[12] In view of its flawed oversight philosophy, it is unsurprising that the CDE's approach to monitoring has been equally flawed. Because it has historically seen itself more as conduit mechanism than a fiscal overseer, the CDE has given little consideration to the issue of risk.

**It may be, in fact, that students are performing well in spite of, rather than because of, school and district spending decisions and procedures.**

A district or non-profit may, for example, have a past history of misusing state and federal funds. Yet, because of the conduit mentality of the department and lax or nonexistent oversight procedures, the fund-receiving entity's past history may not be entirely known. Even if known, the misconduct may not be considered seriously in the oversight process. Risk factors could also include the size of the funding a district or non-profit receives, how long the entity has participated in a particular program, and the frequency of on-site audits or reviews. In practice, this lack of emphasis on risk manifests itself in a number of unfortunate ways.

For instance, the CDE's own policies, along with state and federal regulations, mandate that the department audit or review fund-receiving entities every two to five years, depending on the requirements of the particular categorical program involved. But according to the BSA report, even when the department discovered problems with districts and non-profits, it did not conduct follow-up reviews the following year to check whether the problems had been corrected. The report warned that "It is imperative that the department considers prior weaknesses when it plans monitoring for the current year to ensure that those weaknesses are corrected."[13]

In simple terms, even if a district or non-profit had been caught squandering or misusing tax dollars, the CDE, up to the time of the report, had not worked to ensure that the recipient ceased its unlawful behavior. By failing to consider risk, the CDE has not been able to set proper priorities in its oversight procedures.

Given limited manpower resources, how does one choose between district A and district B when it comes to deciding which fund-receiving entities should be reviewed? If risk is not a factor in that decision, then it is quite possible for an efficient and law-abiding district to be reviewed, while a district with a history of squandering money conveniently escapes scrutiny. "Although it is not feasible," pointed out the BSA report, "to conduct an on-site review of the 1,800 entities that receive state and federal funds each year, proper planning could ensure that the department's resources are best spent on identifying those at highest risk of improperly using state and federal funds."[14]

Also, because of its conduit mentality, the CDE has failed to create a comprehensive central tracking system to determine the status and results of its monitoring activities. Such a system would allow all the department's various units, such as the audits division and the child development division, to enter information such as the findings of reviews, their resolution, whether reviews are timely, and the resources needed to conduct timely reviews.

Instead of a central tracking system, the CDE's various units have used their own separate systems that track only their own monitoring information. The trouble is, the results produced from one unit's system are not formally communicated to other units. In addition, these separate systems do not contain the same information. Thus, while the Adult Education Office does track sanctions imposed on districts and non-profits, the Child Development Division and the Nutrition Services Division do not.[15]

What is the consequence of not having a central tracking system? The BSA observed, "If the department had a central tracking system, it could quickly identify programs and entities that consistently experience problems such as claiming reimbursement of allowable costs or failing to correct previously identified weaknesses."[16] Who knows, then, how many districts and non-profits receiving state and federal categorical funding have been able to waste those tax dollars without detection because of a lack of coordinated centralized monitoring. The occasional newspaper story revealing misuse of tax money by districts and non-profits may have been only the tip of the iceberg. The CDE's failings prevent taxpayers, legislators, and the media from gaining full knowledge.

The lax attitude toward oversight further manifested itself in the CDE's failure to use performance measures to assess the value of its monitoring activities or the results of its reviews and audits. The BSA noted that "none of the [CDE's] divisions compare the hours budgeted for program reviews to the actual hours needed to complete them so they can measure staff performance or highlight inefficiencies in the review process."[17]

Even though deadlines were set for school districts to correct problems, the CDE never evaluated the timeliness of the corrective actions. "Establishing and consistently using performance measures," observed the BSA, "would ensure that the department is providing the most value it can to its ultimate customers, the students."[18]

Another critical weakness of the CDE's oversight process has been its failure to conduct sufficient numbers of on-site audits of non-profits and school districts that receive state and federal program dollars. In one four-year period, from October 1994 to September 1998, the CDE's audits division conducted only 11 on-site audits of non-profits. That amounts to fewer than three audits per year.

**California has nearly 1,000 school districts, the most of any state. But during the same period the CDE failed to conduct a single on-site audit of any school district in the state.**

California has nearly 1,000 school districts, the most of any state. But during the same period the CDE failed to conduct a single on-site audit of any school district in the state.[19] Such audits are one of the primary missions of the department's audits division. This makes the number – zero – of considerable interest.

The failure or refusal to conduct on-site audits increases the chance that entities receiving state and federal funds will misuse those funds. With little chance of being caught misspending tax dollars, funded entities have no great incentive to be careful in their spending procedures.

As for the CDE, its investigative failures have been matched by an unwillingness, particularly by department leadership, to enforce accountability in those groups receiving public funds. A recent scandal outlines the dimensions of the problem.

## "A CLEAR CASE OF FRAUD"

The CDE is responsible for overseeing federal grants for adult education and English language instruction for immigrants. Many groups receiving these fund have engaged in activities ranging from suspect to openly criminal. When one of the CDE's own officials pointed out serious abuses in several of these groups, however, the department's response was not to investigate the misconduct but to fire the person who had pointed out the problems. It subsequently emerged that, in some cases, the CDE was channeling public money to for-profit groups not eligible to receive it. Many of the non-profit community organizations receiving millions had only bogus or nonexistent records of how funds had been spent.

For some CDE inspectors it was "a clear case of fraud," but department leadership failed to take action. One group was near bankruptcy and using the education funds to pay its delinquent taxes. After learning of this illegal practice, the CDE not only continued to fund the group but gave it an extra $1.6 million. The same recipient group could not account for federal health funds administered by the CDE, and State Superintendent of Public Education Delaine Eastin sought to cease the funding. But based on only a promise to provide documentation, not actual data or proven practice, the department continued to fund the group.[20]

The CDE demanded that the group return a grant for more than $4 million but despite a lawsuit has been unable to recover any funds.[21] Federal officials launched an investigation of the scandal in 1998 and in 2001 the FBI arrested the leaders of another group receiving adult education money through the California Department of Education.[22]

This unresolved scandal, which involves more than $20 million in public funds, could have be averted had the CDE shown the willingness and ability to follow basic principles of compliance review.

## THE FAILURE TO IMPLEMENT COMPLIANCE REVIEW

A major cause of such problems has been the CDE's inability to review independent certified public accountant (CPA) reports of government-funded non-profits in a timely manner. These reports, which are necessary for the non-profits to receive their funding, must be reviewed by the CDE's audits division to ensure compliance with funding requirements. Throughout the 1990s, however, the CDE has allowed a huge backlog of CPA reports to accumulate.

The CDE is supposed to review the CPA reports within a six-month period after they are received. From 1991–92 to 1993–94, of the 818 reports it received, the CDE audits division had failed to review 525, or 64 percent, within the required time period.[23] From 1995–96 to 1997–98, there was a backlog of more than 500 reports.[24]

Despite the fact that the CDE assured the BSA in 1996 that the use of additional auditors from within the department and from the Department of Finance would solve the tardiness problem, the 2000 Bureau of State Audits report found that the department's audits division "is in the same predicament."[25] The BSA warned that "the audits division is unable to identify instances of noncompliance until it completes its reviews, so problems that may exist can remain uncorrected for an indeterminate length of time."[26] In other words, as long as the CDE fails to do its job in timely fashion, wasteful spending practices can continue undetected. Again, no one knows how many tax dollars were squandered because of this failure.

One particular review of school districts is called the Coordinated Compliance Review (CCR) process. The CCR process combines 12 different CDE reviews of districts into a single review. These cover districts' use of tax dollars from a variety of state and federal programs, including, among others: adult education, child development, gifted and talented education, migrant education, programs for limited-English-proficient students, teacher professional development, and reading programs. But the CCR reviews have been much less effective than they could have been because of critical shortcomings in the review process.

For instance, the BSA noted that "CCR reviewers do not document exactly what they examine during visits [to school districts], which hinders the supervisors' ability to ensure that all required items were reviewed."[27] CCR reviewers, evidently, were not retaining the documentation showing that reviewers looked at the funding program's requirements. Shockingly, the CDE's CCR manager stated that the department never felt the need to document what reviewers examined.[28] This omission, observed the BSA, is critical:

> However, without sufficient written evidence, such as a checklist or similar written record, the department cannot validate that its staff adhere to monitoring guidelines. For example, the CCR reviewer responsible for Migrant Education programs must review a sample of the learning plans for 10 students at each of three grade levels, yet we found no documentation that the reviewer gathered any samples. Thus, the department cannot ensure that students in this program received services to address problems arising from their migrant lifestyles.[29]

In other words, there may be a misuse of resources going on, but lawmakers and the public would never know about it because of the CDE's flawed CCR review process. Even when problems were detected by the CCR review, there was no guarantee that anything would be done about them.

Under CCR guidelines, school districts are supposed to rectify any compliance problem within 45 days of notification. Districts can receive a 180-day extension to correct especially difficult problems if they submit a corrective-action plan within the 45-day period. After 225 days on non-compliance, a letter is supposed to be sent to the district superintendent warning that the CDE will notify the district school board if problems are not corrected within 365 days. After 365 days, the school board is notified and the state Board of Education can approve sanctions.

In a sample of offending school districts, the BSA found that most failed to correct their problems with the first 45-day period. They also failed to submit a corrective action plan when the 180-day extension was given, despite the fact that such a plan is a prerequisite for the granting of the extension. Most districts still had unresolved problems at the 225-day mark, yet only one district received the required warning letter and even that letter was not sent until 96 days after the 225-day deadline.[30]

**In other words, there may be a misuse of resources going on, but lawmakers and the public would never know about it because of the CDE's flawed CCR review process. Even when problems were detected by the CCR review, there was no guarantee that anything would be done about them.**

The poor performance of many school districts has been matched by the shabby performance of the CDE. At the 365-day point, the CDE, instead of getting tough, seemed to look the other way as districts continued to be non-compliant. According to the BSA's findings:

> More than half of the schools in our sample had some instances of noncompliance that remained unresolved for more than 365 days, with no evidence in their files that the division contacted the appropriate school boards or submitted sanctions to the State Board of Education for approval. In one case, a school was granted a lengthy extension due to the severity of its problems and did not correct all its issues until 575 days after the review.[31]

In other words, more than a year and a half elapsed before problems were corrected, a lengthy and clearly unacceptable lapse. In 1997–98, 21 percent of the schools reviewed remained non-compliant for more than a year, but not a single district received any sanction. Indeed, in the five years prior to the issuance of the BSA report, only one district was the subject of sanctions.[32] Although the CDE was reluctant to push for sanctions under the belief that it would punish children for the mistakes of adults, the BSA astutely pointed out that, "the frequency with which schools remain non-compliant beyond 365 days suggests that the current CCR process may not adequately serve children because programs that are not complying with state and federal guidelines continue to receive funds."[33] The lack of sanctions occurred in other areas as well.

In child development, state regulations require the CDE to conduct on-site program reviews of funding recipients on a three-year cycle. The BSA, however, found that the CDE did not conduct these reviews every three years, but instead every four years.[34] Further, the department did not consistently follow up on non-compliant cases, and accepted written statements from nonprofits and school districts that claimed that deficiencies had been corrected, "even when the situation warrant[ed] an on-site follow-up review to verify compliance."[35] According to the BSA:

> In reviewing a sample of child development monitoring files, we question why a follow-up review of the organization's corrective action did not occur for 80 percent of those reviews for which it would have been appropriate. For example, one review found that the eligibility status of families in the program was not kept up to date. As a corrective action, the reviewer simply accepted the organization's statement that it had updated the families' eligibility and would do so regularly in the future.[36]

The result is that the CDE "may allow organizations that do not adequately correct their identified problems to remain out of compliance for years by not conducting follow-up reviews and not adhering to the review cycle."[37] Thus, a non-profit or school district may misspend tax dollars for years without any detection, correction, or sanction.

Even when violations warranting sanctions are detected, the CDE may never mete out any punishment. Although child development funds may have been unlawfully spent, the CDE has had no guidelines that instruct its reviewers on the specific circumstances under which sanctions, such as termination of a recipient's funding contract, may be necessary.

Significant latitude is given to the reviewer to initiate the sanctions process, with the result that there is potential for some offenders to receive sanctions while others guilty of the same violations escape altogether.[38] The BSA concluded that "Without specific sanctioning guidelines, the department cannot ensure that all non-compliant organizations are held to the same standard of accountability."[39]

The CDE also failed to close its reviews of funded organizations in the required time frame. The department's nutrition services division, based on U.S. Department of Agriculture guidelines, should take a maximum of 90 days to ensure that non-compliant entities take corrective action. If the entity does not take such action, the division is to bill the organization to recover disallowed payments. However, when the BSA investigated the division's files it found that in some instance it took more than 250 days after the 90-day time frame for the division to take appropriate action against non-compliant organizations.[40] Said the BSA:

> Failure to close reviews in timely manner delays the collection of funds that non-compliant organizations owe. For example, one school district owed the department more than $58,000, but the department could not collect the money until the review was closed, more than a year after the debt was discovered.[41]

Thus, money documented to have been misspent and wasted is not recovered because of poor case management by the CDE. In light of this shocking litany of oversight failures, the BSA issued a tough set of recommendations.

Key recommendations for monitoring include: create a comprehensive department-wide plan, develop a central database, establish performance measures, conduct more on-site audits of entities receiving federal and state funds, establish clear guidelines for imposing sanctions on non-compliant entities, monitor corrective action for entities receiving state and federal funds, and enforce fiscal and administrative penalties.

State agencies that are the subject of BSA investigations must issue official replies. The CDE issued three responses at the 60-day, six-month, and one-year marks after release of the BSA report. In these responses, the department says that it has increased funding for compliance monitoring, added more personnel for monitoring purposes, reduced the backlog of audit reviews, created new financial reporting forms, focused on high-risk entities, increased on-site audits, and improved the timeliness of audits and reviews.[42]

**Thus, money documented to have been misspent and wasted is not recovered because of poor case management by the CDE.**

The CDE also notes that since the release of the BSA report, sanctions have been imposed on a few non-compliant school districts. Regarding sanctions, the department states that its guiding principle is as follows:

> As provided in federal and state law, sanctions will: (a) be invoked on the basis of extensive failure to improve pupil achievement and/or failure to rectify long-standing violations of federal and state law; and (b) escalate in severity as evidence of continuing low student achievement increases and/or further evidence of violating federal and state law occurs. However, technical assistance will be provided, as appropriate, to local education agencies prior to invoking sanctions.[43]

Although this principle seems like an improvement over the historical status quo, caution should be exercised before giving wholehearted approval. For instance, while having some guideline on sanctions is better than none, as existed before, the timeline of imposing sanctions is still nebulous. How "long-standing" does a violation have to be in order for the department to impose sanctions? Also, the department says it will provide technical assistance prior to invoking sanctions, but does not say for how long. Thus, while the CDE seems more willing to impose sanctions, it is unclear as to when those sanctions will be imposed on non-compliant entities.

Only time will tell whether the department's oversight procedures improve over the long run. The BSA report noted that in 1996 the CDE said that it was adding more auditing personnel to ensure timely review of audit reports. However, three years later the BSA found that the CDE was still behind in its work.[44] The department now says that it has caught up, but will this improvement continue?

It is difficult to say, but the department's history does not encourage confidence. It should be noted that at the time of the preparation of this paper, the CDE did not have a full-time coordinator responsible for overseeing the department's response to the BSA report. Further, when the authors called for updates on department responses to the BSE report, the CDE failed to respond.

It remains uncertain whether the CDE's monitoring reforms will take hold and be effective. That still leaves unchanged the reality that for decades the department failed to carry out its oversight responsibilities. How many millions or billions of tax dollars were misspent because of this dereliction of duty? It is impossible to answer that question.

## CATEGORICAL PROGRAMS

In general, California's State government distributes tax dollars to local school districts and county offices of education in two ways. One method allocates funds through revenue limits, tax dollars sent to local districts that districts may spend as they deem appropriate. The second method, which accounts for about one-third of total K–12 funding from all sources and one-half of all K–12 state appropriations, is through categorical programs.[45] These programs earmark tax dollars for specific purposes, such as reducing class size or funding special education, and the local districts can only spend the money on those purposes, although some flexibility has recently been permitted. The state administers more than 60 categorical programs.

Both revenue limits and categorical programs have been plagued by built-in inefficiencies. According to the Little Hoover Commission:

> Each of the 1,000 [school] districts each year calculates its revenue limit using a 30-page form that accounts for the myriad of adjustments, add-ons and subtractions that districts are allowed or forced to take. In addition, categorical programs have their own paperwork, justifying district eligibility and

> documenting expenditures. Teams of district personnel to fill out the paperwork are matched by teams of state workers to check it. In addition, most school districts of any size spend money on consultants for advice on how to maximize funding or pass audits.[46]

The Commission also noted that districts with high amounts of categorical funding spent a disproportionate amount of money on administration linked to those programs.[47] The total cost of this red tape and paper pushing could only be guessed: "While no one the Commission talked to could estimate the cost on all sides, most agreed it was in the multi-millions of dollars statewide."[48]

Categorical spending is especially fraught with problems. The previous section of this paper used a narrow definition of wasteful spending that focused on poor state oversight of categorical funds. A wider definition would focus on whether the categorical programs serve a prudent educational purpose and whether the structures created to carry out that purpose were efficient. The evidence shows that both the purposes and structures of categorical programs are often seriously flawed. These flaws result in massive waste and misallocation of tax dollars. A 1997 report by the state Legislative Analyst's Office (LAO) laid out the major failings of categorical programs:

**The Commission also noted that districts with high amounts of categorical funding spent a disproportionate amount of money on administration linked to those programs.**

- **No conclusive evidence on the success of categorical programs.** Most programs are never evaluated. Categorical programs that have been evaluated reveal a mixed record of success.
- **State rules restrict needed local flexibility.** Complex and detailed program requirements in some programs reduce the flexibility needed by schools to maximize the impact of funds on improving student achievement.
- **A fragmentation of local programs.** Without a local strategy for integrating categorical programs with the basic educational program, process requirements of the categorical programs shape local responses rather than the needs of students.
- **Funding formulas create negative incentives.** Some categorical financial incentives encourage schools to act in ways that are not in the best interests of students.
- **Blurred accountability for meeting student needs.** Creating separate programs for specific student needs creates confusion about who is responsible for improving student achievement.[49]

The legislature has made some attempt to increase flexibility in categorical spending. Up to 20 percent of some categorical funds can be shifted to other categorical programs. A pilot program was enacted for 2001–02 that allowed a few school districts to combine many categorical programs into three categories and gave those districts greater discretion over how to spend the money.[50] Overall, however, the categorical funding system remains marked by rigidity and complexity.

## DESEGREGATION DOLLARS

It is instructive to examine the LAO's criticisms as they relate to individual categorical programs. For example, consider that most categorical programs are never evaluated, a situation that legislators, educators, and taxpayers alike should find appalling. Since the programs are never evaluated, it is very likely that year after year massive amounts of tax dollars are poured into ineffective programs. Consider the case of desegregation, one of the most expensive categorical programs.

Every year, California spends hundreds of millions of tax dollars on busing programs designed to bring together students of different races and on programs aimed at schools with large ethnic minority populations. The state spent $677 million on the desegregation categorical program, and more than $700 million in 2001–02.

In 2001–02, the legislature combined the voluntary and court-ordered state desegregation funds into a single program called the Targeted Instructional Improvement Program (TIIP) which required school districts to use TIIP funds to pay first for any court-ordered activities and then allowed the balance to be used to assist low-achieving students in the district.[51] Whatever the name, the desegregation program has a long history of problems.

A dozen years ago, the LAO criticized the program's high cost, lack of guidelines, and non-existent controls over what activities were funded.[52] To this day, there has been little evidence of success generated by the program and many instances of outright failure.

The Pasadena school district, for example, has been busing students since 1970. Now, 32 years later, new Pasadena superintendent Percy Clark, who wants to end busing, says that: "At one time, [busing] was centered around desegregation – that if we would bring black and white youngsters together, something would happen educationally. And that hasn't happened."[53] The district busing plan currently involves transporting 2,300 children away from their neighborhood schools. Yet, observes Clark, "We are busing students without any intended consequences."[54] In other words, students are being bused simply for the sake of busing without any measurable academic goal or even the original attempt at racial balance.

Even one of the original backers of the Pasadena busing plan reluctantly admits that "busing was a failure."[55]

In place of race-conscious busing, Pasadena school officials now support allowing students to attend their neighborhood schools. Such a switch, say district leaders, will reduce commute times for students and increase parental involvement. Clark says that these factors are key to improving student achievement. Indeed, actual increased student achievement has never been a requirement for busing programs.

Pasadena has not been under court order to desegregate its schools since 1979. However, it has continued to participate in the state's voluntary desegregation program and receives about $1.5 million annually in state funds to offset the cost of busing.[56] The state, to its credit, has recently increased the flexibility for districts to use desegregation funds for non-busing activities. Clark says that money is better spent on reading, writing, and arithmetic "than on a 45-minute bus ride."[57]

The Pasadena case demonstrates the historical failings of categorical funding. Funding was not tied to objective measurable indicators such as student performance and no tangible evidence of success was required. Yet millions of tax dollars were poured into the Pasadena program year after year. And in the end, did generations of Pasadena schoolchildren receive any real academic benefit for all the money expended on their behalf?

**Even the few categorical programs that have been rigorously evaluated show uneven evidence of success.**

Probably not, but because the state has not required districts to answer that question, educators and legislators will never know for certain. Even the few categorical programs that have been rigorously evaluated show uneven evidence of success. The state's class-size-reduction program (CSR) is a prime example.

## CLASS SIZE REDUCTION (CSR) SPENDING

CSR is the state's second-most expensive categorical program, surpassed only by special education. In 2001–02, the program cost more than $1.7 billion. Since funding began in 1996–97, the state has poured around $9 billion into CSR. Yet, for all that spending, there has been only weak evidence that CSR has increased student achievement.

**TABLE 2**

**FINAL PARTICIPATION AND FUNDING DATA, 2000–01**
**K–3 CLASS SIZE REDUCTION PROGRAM**

| State Totals | Combination Total | Ineligible | Eligible | Total Classes/Pupils | Total Apportionment |
|---|---|---|---|---|---|
| Classes | 11,093 | | | 98,824 | |
| Pupils | 206,538 | 8,991 | 197,547 | 1,853,486 | $1,565,986,938 |

Source: CA Dept of Education, School Facilities Planning Division, see http://www.cde.ca.gov/classsize/particip/dist00.htm

**TABLE 3**

**PARTICIPATION COMPARISON: K–3 CLASS SIZE REDUCTION PROGRAM**
**1996–97 THROUGH 2000–01**

| Grade Level | 1996-97 | | 1997-98 | | 1998-99 | | 1999-00 | | 2000-01 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Pupils | Number of Classes | Number of Pupils | Number of Classes | Number of Pupils | Number of Classes | Number of Pupils | Number of Classes | Number of Pupils | Number of Classes |
| First | 428,242 | 22,533 | 484,518 | 22,004 | 483,714 | 22,021 | 477,150 | 22,016 | 480,307 | 22,229 |
| Second | 262,074 | 13,831 | 468,103 | 20,622 | 475,477 | 20,932 | 472,842 | 21,180 | 475,702 | 21,399 |
| Third | 79,062 | 4,223 | 309,828 | 14,226 | 410,089 | 19,000 | 444,136 | 20,908 | 458,040 | 21,617 |
| K | 64,779 | 3,736 | 321,209 | 18,098 | 393,036 | 20,327 | 421,943 | 21,726 | 439,439 | 22,486 |
| Combos* | 121,176 | 7,289 | 8,085 | 11,166 | 8,681 | 12,213 | 9,132 | 11,379 | 8,989 | 11,093 |
| Totals | 955,333 | 51,612 | 1,591,743 | 86,116 | 1,770,997 | 94,493 | 1,825,203 | 97,209 | 1,862,477 | 98,824 |

Source: California Department of Education, School Facilities Planning Division (viewable at http://www.cde.ca.gov/classsize/particip/comp00.htm)

A June 1999 study by the CSR Research Consortium, which included RAND and other education research organizations, looked at student performance data and found only a slight achievement gain by California third-graders[58] This gain was so small it did not come close to matching the relatively small gains made by students in Tennessee, the state with the most publicized class-size-reduction program.[59] Also, while in Tennessee the more disadvantaged students experienced the greatest achievement increase, no equivalent increase was observed among disadvantaged students in California.[60]

Further, the consortium found that when compared to other variables affecting student achievement, such as family and socioeconomic status, class-size reduction had by far the weakest effect.[61] Indeed, class-size reduction had only one-eighth to one-tenth the effect of the other variables. The study also pointed out that any small positive effect of class-size reduction on student achievement is diluted by the fact that "Other circumstances could account for some of the [class-size reduction] effect, so the student achievement gains in smaller classes should probably be attributed to [class-size reduction] and an unknown combination of other reforms."[62] In other words, it is unknown "whether it is even the [class-size reduction] program that was the cause of this gain."[63]

The consortium reached similar conclusions in a 2002 follow-up study. Test scores of elementary-grade students have been increasing annually since the current testing system began in 1997–98. The study found, however, that "the statewide pattern of score increase in the elementary grades does not match the statewide pattern of exposure to CSR, so no strong relationship can be inferred between achievement and CSR."[64] Further, said the study, "California was implementing a number of significant new programs at the same time that CSR was being implemented, and it is impossible to attribute changes in achievement scores to any single cause."[65]

Other reforms have proved more powerful than class-size reduction. Curriculum reform, especially the implementation of effective reading programs based on phonics, has proven very successful. Consider, for example, the Los Angeles Unified School District.

In 2000–01, the LAUSD implemented the Open Court reading program. Open Court not only emphasizes the phonics method of reading instruction, it uses a direct instruction approach to teaching that includes the use of highly scripted lesson plans that tell teachers how and what to teach. Open Court was the program used by famed principal Nancy Ichinaga of the high-poverty but high-performing Bennett-Kew elementary school in Inglewood.

Open Court has produced results. LAUSD students have taken the Stanford–9 achievement test since 1997–98 in grades 1–11. Grade 1 students are tested with the exam as part of the district's testing program, while students in grades 2–11 are tested as part of the state's Standardized Testing and Reporting (STAR) program. It was on the first-grade scores that LAUSD showed considerable improvement. Reading scores rose 14 percentile points, from the 42nd percentile in 2000 to the 56th percentile in 2001. The gains in spelling were even greater, with an increase of 18 percentile points, from the 38th percentile in 2000 to the 56th percentile in 2001.

When broken down by ethnicity, from 2000 to 2001, the reading scores of Hispanic first graders rose from the 35th percentile to the 50th percentile, while African-American first-grade scores increased from the 45th percentile to the 55th percentile. White and Asian first-grade scores also rose by significant amounts.

Los Angeles school officials attribute these gains to the new phonics program and not to class-size reduction. Testifying in December 2001 to the California Postsecondary Education

Commission, LAUSD superintendent Roy Romer said that it was Open Court that had dramatically improved first-grade scores. Romer specifically noted that LAUSD had been reducing class size for a number of years, with little effect. It was only when the district switched to Open Court that scores shot up.[66]

One of the likely reasons for the comparatively minimal impact of class-size reduction is that the program has diluted the overall quality of the teacher pool. Reducing class size meant that many more teachers had to be hired in a hurry. Unfortunately, many new teachers had less teaching experience and less education. Indeed, the percentage of K–3 teachers who had a bachelor's degree or less increased significantly after class-size reduction.[67] Research has shown that teacher quality is the most important factor in increasing student performance, and that a teacher's mastery of subject is especially important[68] Yet, despite such evidence, the state continues to spend billions on reducing class size.

**One of the likely reasons for the comparatively minimal impact of class-size reduction is that the program has diluted the overall quality of the teacher pool.**

Edward Lazear, an economics professor at the Stanford University Graduate School of Business, has built a statistical model showing that "reducing class size from 30 students to California's target of 20 would increase average educational performance by four percent – but it would cost 30 percent more."[69] Professor Lazear, therefore, concludes that "blanket policies of class-size reduction are inefficient and wasteful."[70]

Class-size reduction also illustrates another of the LAO's criticisms of categorical programs – that categorical programs create financial incentives that encourage schools to act in ways that are not in the best interests of students. According to the 2002 consortium study, the cost of reducing class size is often not fully covered by the state's categorical funding. Two-thirds of school districts reported that state funding was not enough to cover the total cost of reducing class size. Thus, according to the study, "the CSR program has required that districts and schools reallocate funds and space away from a variety of support and educational programs, and this reallocation has not lessened over time."[71]

The study notes that districts have had to divert money away from high-priority programs such as teacher professional development, after-school programs, libraries, and computer labs.[72] The Consortium concludes that "It remains to be seen how this reallocation of resources may affect students' overall education and performance over the long term."[73] In other words, tax dollars are being siphoned away from programs affecting teacher quality and student preparedness into a program that has shown little or no evidence of improving student performance.

Class-size reduction is not the only categorical program that creates financial incentives that encourage schools to act in ways that are not in the best interests of students. Gov. Gray Davis's 1999 Public School Accountability Act (PSAA) and various subsequent acts of the legislature created generously funded programs that, unfortunately, focused more on the interests of adults working in the system rather than the interests of students who deserve a quality education.

## SANCTIONS FOR FAILING SCHOOLS

The weak sanctions portion of the PSAA has not provided schools with a pressing incentive to improve student performance. Sanctions for failing schools are contained in or affected by two main categorical programs: the Immediate Intervention/Underperforming Schools Program (II/USP) and the High Priority Schools Grant Program (HPSGP). Including the Davis Administration's proposed allocation for 2002–03, II/USP will have received more than $500 million in state and federal funding during Davis's first four years as governor. The HPSGP was signed by Davis in late 2001 and will receive funding of nearly $200 million.

Under II/USP, failing schools apply to the program and may be chosen to receive $50,000 planning grants in their first year in the program. These grants are for the development of a comprehensive plan for school reform. After the plan is approved by the state Board of Education, the school then receives annual implementation grants of up to $200 per enrolled student. Schools receive the implementation grant for two years and may be granted a third year of funding if they continue to struggle to meet their performance targets.

If a school fails to meet its performance targets, which are based on the student test scores, sanctions may be imposed. These sanctions can include allowing students to attend another public school, allowing a charter school to be developed, reassigning school management and other personnel, renegotiating a new collective bargaining agreement, reorganizing the school, or closing the school down. However, there are important problems with the sanctions process under II/USP.

First, it can take at least three years for sanctions to be imposed. Second, it is up to the discretion of the state Superintendent of Public Instruction as to which, if any, sanctions will be imposed. Given that state superintendents over the last decades have been strong allies of teachers unions, many sanctions may end up being paper tigers. The process was even further derailed by the enactment of HPSGP in 2001.

This program is layered on top of the existing II/USP program and gives failing schools a grant of $400 per student – double the II/USP implementation grant. Under HPSGP, the sanctions timeline would be lengthened. If they fail to hit their annual testing growth target, it may be four or more years before any sanctions are implemented. It should also be noted that nothing in either program prevents a school from using up its three years under II/USP and then applying for HPSGP to get another four years.

It is therefore technically possible for a school to go for as many as seven years without meeting growth targets before sanctions are applied. Even if such a worst-case scenario is not likely, it is definitely the case that a child may attend a failing school for years without the school suffering any sanctions for poor performance. Sacramento Bee columnist Daniel Weintraub, an astute observer of California education policies, points out that:

**It is therefore technically possible for a school to go for as many as seven years without meeting growth targets before sanctions are applied.**

> In reality, the state probably is not prepared to intervene in dozens or even hundreds of failing schools across California in the next few years. Even if they could, state officials are not looking forward to assuming responsibility for problems that might be very difficult to solve. But to back away from targets and time lines that were voluntary to begin with, and not very strict at that, sends a signal that the state is not serious about closing the achievement gap.[74]

The bottom line is that the state is providing ineffective incentives to failing schools. It is allocating hundreds of millions of tax dollars, but with only the barest hint of sanctions for continued failing performance. Even when and if sanctions are applied, it is a virtual certainty that they will be the lightest available. Thus, schools can collect extra funding with little near-term fear that anything greatly negative will happen to them if they fail to produce better results.

Whether sanctions are eventually imposed on some failing schools, the reality remains that state accountability programs such as II/USP and HPSGP are voluntary. Under current requirements, schools that rank in the lower half of the state's Academic Performance Index (API) and fail to meet their state-recommended growth targets, based on test scores, are eligible to apply for state assistance. Low-performing schools are not required to apply, and even if they do there is no guarantee that they will be selected to be part of the accountability program. Therefore, many failing schools neither apply nor are selected for the program. For example, in 2000–01, of the 938 eligible schools, only 532 applied for 430 slots. In other words, 406 eligible low-scoring schools voluntarily decided not to apply, and of those that did 102 were not selected.

The upshot is that some of the worst schools are neither compelled to apply for the state accountability programs nor guaranteed selection if they do apply. It is quite possible for a slightly below-average school with an API ranking of four to be chosen over a school with a lowest ranking of one. Further, the LAO points out that the school with the lowest API score in the state may not be eligible for the accountability program if it meets its incremental growth target based on annual test-scores.[75] Thus, such a school would be ineligible to apply to the program while a higher scoring school may be eligible if the latter failed to meet its growth target.

If the best interest of students is defined as improving their achievement, then the state's accountability system fails to provide the financial incentives to schools to meet this priority interest. Tax dollars are not directed at many of the state's worst schools, and those schools that do get funding have little to fear that continued poor performance will result in serious consequences. All of this adds up to a waste of money generously provided by California taxpayers.

The Little Hoover Commission underscores another criticism of categorical programs – that they focus on process requirements at the expense of educating children. The Commission points out that:

> Millions of dollars are spent on process rather than product. Dollars that never make it to the classroom and arguably do nothing to teach a child to read or do arithmetic include the salaries for: an attendance clerk at school so that per-pupil daily revenue based on daily attendance counts can be captured and justified; an accountant in the district office to fill out state forms proving that transportation funds have not been diverted to pay for chalk and paper clips; a specialist to tell the district how to align its programs to gain a bigger share of categorical funding; and an auditor for the state to ensure paperwork compliance – not that schools are doing their job of educating but that they are following procedures. Multiply these individuals many times over and it begins to be clear that the cost of complexity is high and largely irrelevant to the task at hand – educating children.[76]

Many categorical programs are guilty of putting process before children. Special education, for instance, the state's most expensive categorical program at $2.6 billion in 2001–02, has long been criticized for its complex process requirements. The LAO has pointed out that an entire industry of consultants has sprung up just to help school districts fill out the complicated forms needed to receive special-education funding[77]

The state categorical funding process is inherently wasteful. Programs such as class-size reduction are flawed because there is little evidence of significant correlation between purpose, such as reducing class size to increase student performance, and objective, the actual improvement of student achievement. Further, the poor structures of categorical programs, such as the porousness of the state accountability system or the complexity of special education, cause inefficiency and ineffectiveness. While special-interest groups, notably teacher unions, constantly clamor for more education spending, there can be little justification for such self-interested pleas given the billions of tax dollars currently being wasted.

## CATEGORICAL PROGRAM FLEXIBILITY TRANSFERS

Until the 1999–00 school year, school districts were not required to report flexibility transfers between categorical programs, but many districts used the flexibility to reshuffle categorical program balances.[78] Throughout the 1990s (1992–93 through 1998–99), allocations for most categorical programs were bundled up in a one "mega-item"—a single budget appropriation covering more than 30 categorical programs.[79] The Budget Act of 1999 eliminated the mega-item and assigned each categorical program an individual budget item retaining the flexibility to shift funds between categorical programs.[80] A new condition was placed on this flexibility, however, requiring the districts to report to the CDE any amounts shifted between programs and requiring the CDE to provide this information to the legislature and the DOF.

In 1999–00, for the first time, the CDE required local education agencies to report all flexibility transfers. Out of a total of 1,094 unaudited financial reports received for 1999–00 from county offices of education, school districts, and joint powers agencies, CDE received information about flexibility transfers from 148 districts. In its report to the legislature, CDE found several problems associated with how individual local education agencies (LEAs) reported the transfers between categorical programs. Because of this, CDE excluded data reported by 59 school districts whose entries showed a flexibility "transfer out" from a program with an equal "transfer in" amount to the same program. However, the CDE went further and included any transfers out of a program and back into that same program when the transfers in and out were not of an equal amount.[81] It is unclear whether the districts were held accountable for these unreconciled transfers.

**TABLE 4**

## 1999-2000 FLEXIBILITY TRANSFERS IN

| Programs With Net Transfers In | Appropriations | Net Transfers In | Pct. For Total Net Transfers In | Net Increase To Program |
|---|---|---|---|---|
| Pupil Transportation | 455,893,000 | $19,684,549 | 80.6% | 4.3% |
| Economic Impact Aid | 394,105,000 | 3,931,400 | 16.1% | 1.0% |
| Child Nutrition Programs | 63,011,000 | 367,612 | 1.5% | 0.6% |
| Voluntary Desegregation | 138,015,000 | 150,525 | 0.6% | 0.1% |
| Healthy Start | 39,000,000 | 74,738 | 0.3% | 0.2% |
| Educational Technology | 22,364,000 | 74,086 | 0.3% | 0.3% |
| Dropout Prevention | 22,102,000 | 66,033 | 0.3% | 0.3% |
| Conflict Resolution | 280,000 | 37,518 | 0.2% | 13.4% |
| Specialized Secondary Programs | 4,506,000 | 23,323 | 0.1% | 0.5% |
| Demonstration Pgms. in Reading & Math | 5,530,000 | 18,500 | 0.1% | 0.3% |
| School Safety Block Grant, Grades 8-12 | 71,087,000 | 6,502 | 0.0% | 0.0% |
| **Total, Net Transfers In** | **$1,215,893,000** | **$24,434,786** | **100.0%** | **2.0%** |

Source: School Fiscal Services Division, CDE

**TABLE 5**

## 1999-2000 FLEXIBILITY TRANSFERS OUT

| Programs With Net Transfers Out | Appropriations | Net Transfers Out | % For Total Net Transfers Out | Net Decrease To Program |
|---|---|---|---|---|
| School Improvement, K-6 323, | 160,000 | ($21,207,484) | 86.80% | -6.6% |
| Gifted and Talented Education | 49,601,000 | -1,106,608 | 4.50% | -2.2% |
| School Improvement, 7-12 | 62,761,000 | -1,036,461 | 4.20% | -1.7% |
| Miller-Unruh Reading | 26,328,000 | -255,003 | 1.00% | -1.0% |
| Intersegmental Programs | 1,776,000 | -235,908 | 1.00% | -13.3% |
| Tenth Grade Counseling | 9,749,000 | -209,767 | 0.90% | -2.2% |
| Administrator Training (Staff Dev.) | 4,633,000 | -180,020 | 0.70% | -3.9% |
| Opportunity Programs | 2,179,000 | -146,113 | 0.60% | -6.7% |
| Foster Youth Services | 7,677,000 | -30,614 | 0.10% | -0.4% |
| Agricultural Vocational Education | 3,798,000 | -11,061 | 0.00% | -0.3% |
| Bus Replacement | 3,995,000 | -10,112 | 0.00% | -0.3% |
| School Development Plans, etc. | 19,615,000 | -5,635 | 0.00% | 0.0% |
| Total, Net Transfers Out | $515,272,000 | ($24,434,786) | 100.00% | -4.7% |
| **Total, Statewide Appropriations** | **$1,731,165,000** | | | |

Source: School Fiscal Services Division, CDE

Thus, the summary report is comprised of transfer data reported by 89 school districts, or 8.14 percent of the LEAs. The CDE report identified transfers into and out of 23 of the 32 programs eligible for flexibility transfers. Total statewide appropriations for these 23 programs amounted to more than $1.7 billion: net transfers out accounted for more than $515 million; and net transfers in accounted for more than $1.2 billion.[82]

## ABUSES AT THE DISTRICT LEVEL

While oversight is the role of the state, school districts are the primary fiscal agents for California's public education system. They receive funds, primarily from the state, and develop a budget for how those funds will be spent. In most California school districts, salaries and benefits for teachers, administrators, and support staff claim about 85 percent of the budget.[83]

District officials must meet state reporting requirements and twice a year certify their financial status and ability to meet future obligations. They must also arrange for an independent audit annually.[84] The local County Office of Education monitors the district's financial status and approves its budget. Current fund accounting and reporting procedures for local districts and LEAs to the state are insufficient to prevent fraud and wasteful spending from occurring in the first place.[85]

According to CDE officials, under California's financial reporting structure, districts are not required to track discretionary expenditures in a manner that ties them directly to the revenue source. If the district does not track this activity independently, which in most cases it does not, the information is unavailable.

Furthermore, LEAs can also create and use their own unique codes and definitions to identify accounts that are not already defined by required or optional codes in the California School Accounting Manual (CSAM).[86] If an LEA elects to use locally defined optional codes, account balances in such accounts must be "rolled up" by the LEA to the coding level specified by the CDE for the purpose of transmitting accounting data for state financial reporting.[87] This method of reporting allows the CDE to "roll up" the accounts to a level that provides for statewide comparisons with districts not using the optional codes. However, transparency is sacrificed, and abuses at the district level are not discovered until long after the damage has been done.

While everyone in the organization has some responsibility for spending decisions, the board of education, the superintendent, and the top management are ultimately responsible. California's Fiscal Crisis Management Assistance Team (FCMAT) points out that those school districts that seek excellence in their operations must establish and maintain a strong internal control system that is effectively communicated to all employees. They must establish an internal control consciousness within the district. In districts across the state, the most abused expenditures are those related to travel, maintenance, purchasing, consulting and procurement contracts, and facilities bond funds. The Belmont Learning Center in Los Angeles, the $200-million high school that has yet to serve a single student, is only the most outrageous among many examples of colossal waste.

**The Belmont Learning Center in Los Angeles, the $200-million high school that has yet to serve a single student, is only the most outrageous among many examples of colossal waste.**

## SAN FRANCISCO UNIFIED SCHOOL DISTRICT (SFUSD)

The SFUSD has a student population of approximately 64,000 attending 115 schools, with an annual budget of nearly $500 million. Like many districts large and small, San Francisco is constantly on a quest for more money. Voters and taxpayers have complied, and during the past 13 years the district raised approximately $337 million through four voter-approved bond and tax measures. But the way the district has spent this money, more than a quarter billion dollars, is a classic example of waste and irresponsibility.

These funds were intended primarily for much-needed facilities but some of the projects were never completed or not started in the first place. The SFUSD spent as much as $100 million of the bond and tax money to finance projects that ran over budget or had never been mentioned to voters. The district spent as much as $68 million on salaries and perks for non-teaching district employees, including several officials who are now the focus of corruption investigations by the District Attorney and FBI. The district covered up its misconduct in order to win approval for yet more funds.[88]

An independent audit of July 2001 found key management positions vacant, unauthorized shifting of funds between accounts, bond funds used for purposes not authorized by voters, and bond funds used to pay both salaries and overhead.[89] Though projects remain unfinished, bond funds are now depleted and district officials are disclaiming responsibility.

According to FCMAT officials, state and local legislators expressed a "growing lack of confidence" in the district's financial practices starting as early as 1995. As a result, state Superintendent of Public Instruction, Delaine Eastin, directed FCMAT to conduct a comprehensive fiscal assessment of the district. The FCMAT analysts concluded that the San Francisco Unified School District has an internal control structure that is "materially deficient."[90] Arlene Ackerman, the current SFSD superintendent, conceded that there had been virtually no controls and that the district's finances had been in chaos. She now urges yet another bond issue to fix the problem.

When presented with the massive waste and corruption, state Superintendent Delaine Eastin decried "a grave injustice against the children of San Francisco."[91] However, the state Department of Education Eastin headed had proved powerless to prevent such an injustice.

## LOS ANGELES UNIFIED SCHOOL DISTRICT (LAUSD)

With more than 722,000 students in K–12 for the 2000–01 school year, the LAUSD is the largest school district in California and second-largest in the nation. However, LAUSD seems hopelessly unable to restructure or reduce its immense size or to adopt processes that optimize incoming revenues, particularly the more than $1 billion of annual federal and state grants. LAUSD currently has more than 75,000 employees, including 36,000 teachers; 6,000 other staff whose positions require a certification, license, or other credential; and 33,000 nonteaching professionals (referred to as classified staff), including school police, operations support staff, management, and supervisory staff. In fiscal year 2000–01, LAUSD's budget was approximately $8.9 billion.

**TABLE 6**

**THE SIX LARGEST SCHOOL DISTRICTS IN THE UNITED STATES**

| | Enrollment | Fiscal Year | Grades |
|---|---|---|---|
| New York City Public Schools | 1,093,071 | 1998-1999 | Kindergarten through 12th |
| Los Angeles Unified School District | 722,727 | 2000-2001 | Kindergarten through 12th |
| Chicago Public Schools, District 299 | 431,750 | 1999-2000 | Kindergarten through 12th |
| Miami-Dade County Public Schools | 360,202 | 1999-2000 | Pre-kindergarten through 12th |
| Broward County Public Schools Florida | 249,923 | 2000-2001 | Kindergarten through 12th |
| Houston Independent School District | 209,000 | 1999-2000 | Pre-kindergarten through 12th |

Sources: See also California State Auditor, Bureau of State Audits, "Los Angeles Unified School District: It Has Made Some Progress in Its Reorganization but Has Not Ensured That Every Salary Level It Awards Is Appropriate," July 2001 (viewable at http://www.bsa.ca.gov/bsa/ ). The figures are the result of BSA survey of Web sites for those school districts that did not participate in BSA survey (Houston Independent School District and Miami Dade County Public Schools), and LAUSD Web site.

In 1993, an LAUSD external consultant, hired to assess whether the district's administration was properly managed and organized to effectively deliver services, reported that the district had excessive layers of management and unclear lines of responsibility, resulting in a lack of accountability. The Little Hoover Commission, the state's accountability watchdog agency, conducted a review of the state's school facilities programs in 1998 and found the LAUSD to be a "dysfunctional organization." In response to years of heavy criticism, in July 2000 the LAUSD began implementation of a reorganization plan designed to increase efficiency, decentralize decision-making, and improve student performance. To that end, the district's plan proposed to move decision-making authority from the central office to 11 newly formed local districts. The LAUSD, however, is still considered a single school district.

The Bureau of State Audits (BSA) found that the LAUSD had not shifted authority of financial resources to local districts, and that the high level of some salaries was "questionable." The LAUSD could not always provide a description of the position's duties or performance measures. In some cases, positions had no job description at all.[92]

**TABLE 7**

| LAUSD Grant Awards, 2000 | |
|---|---|
| Federal - Department of Education (passed through CDE) | |
| Adult Education | $7,632,000 |
| Adult Education-Citizenship | $4,068,000 |
| ESEA, Title I | $197,847,000 |
| Special Education Entitlement PL94-142 | $45,164,000 |
| Eisenhower-Professional Development | $4,691,000 |
| Title IV Safe and Drug Free Schools | $7,385,000 |

Source: LAUSD Comprehensive Annual Report for the Fiscal Year Ended June 30, 2000

**TABLE 8**

| LAUSD Grant Awards, 2000 | |
|---|---|
| State - Department of Education | |
| School Improvement Program | $45,411,000 |
| Economic Impact Aid | $76,329,000 |
| Tobacco Use Prevention Plan | $1,980,000 |

Source: LAUSD Comprehensive Annual Report for the Fiscal Year Ended June 30, 2000

## FRESNO UNIFIED SCHOOL DISTRICT (FUSD)

The Fresno Unified School District (FUSD) recently found itself in a financial crisis that did not develop overnight. In 2000–01 the board voted for an 11-percent raise for district employees. Months later, the board and administration sought at least $25 million in budget cuts to balance the district's 2001–02 spending plan. Superintendent Santiago Wood advanced a plan that eliminated 120 jobs.[93] An audit provided important clues about the cause of the crisis.

The high volume of "blanket purchase orders" in FUSD prompted the most recent audit into compliance. The primary objective was to review the orders for the 1997–1998 fiscal year at the Department of Maintenance and Operations, including the Transportation Department. The volume for the 1997–1998 fiscal year totaled 689 blanket purchase orders for a value of $1,863,612.34.[94] This includes Plant Maintenance and Operations as well as Transportation.

**TABLE 9**

**(FUSD) SUMMARY TOTALS OF 1997–98 BLANKET PURCHASE ORDERS**

| | Count | Start Balance | % of Start Balance | Expenditure Amount | % of Expenditure Amount | Ending Balance | % Spent |
|---|---|---|---|---|---|---|---|
| Plant Maintenance | 601 | $1,428,200.48 | 76.64% | $1,178,411.92 | 78.60% | $249,788.56 | 82.51% |
| Plant Operations | 27 | $168,311.86 | 9.03% | $149,321.24 | 9.96% | $18,990.62 | 88.72% |
| Transportation | 61 | $267,100.00 | 14.33% | $171,552.41 | 11.44% | $95,547.69 | 64.23% |
| **Totals** | **689** | **$1,863,612.34** | **100.00%** | **$1,499,285.57** | **100.00%** | **$364,326.77** | **80.45%** |

Source: Fresno Unified School District, Department of Maintenance and Operations, "Blanket Purchase Orders," Audit Report: SR-97/98.05, March 12, 1999. Prepared by: John N. Conshafter, CFE. CIA

In Table 9, the "Count" column identifies the total number of blanket purchase orders. The total number of 689 represents $1,863,612.34. The total amount expended was $1,499,285.57, or 80.45 percent of the starting balance. The largest amount of blanket purchase orders and dollars went to plant maintenance.[95]

**TABLE 10**

**(FUSD) BLANKET PURCHASE ORDERS BY RANGE**

**Plant Maintenance and Operations, plus Transportation**

| $Range | Number | Start Balance | Expended Amount | Percentage |
|---|---|---|---|---|
| $0 to $1000 | 368 | $197,908.83 | $124,463.29 | 62.89% |
| $1001 to $2500 | 144 | $275,239.04 | $208,491.33 | 75.75% |
| $2501 to $5000 | 96 | $385,862.52 | $294,139.71 | 76.23% |
| $5001 to $10000 | 57 | $433,597.36 | $358,064.60 | 82.58% |
| $10001 to $15000 | 9 | $123,802.25 | $103,694.98 | 83.76% |
| $15001 to $20000 | 9 | $174,000.00 | $159,731.10 | 91.80% |
| $20001 and up | 6 | $273,202.34 | $250,700.56 | 91.76% |
| $2501 to $20000 And Up | 177 | $1,390,464.47 | $1,166,330.95 | |
| Percentages | 25.69% | 74.61% | 77.79% | |

Source: Fresno Unified School District, Department of Maintenance and Operations, "Blanket Purchase Orders," Audit Report: SR-97/98.05, March 12, 1999. Prepared by: John N. Conshafter, CFE, CIA

What is interesting is the number of blanket purchase orders in the range of $0 to $1000. The greatest numbers of orders represent the lowest dollar value. The larger number of orders is almost in direct relation to the lower amount of dollars. The exception is in the range where the dollar levels increase.[96] Individuals not authorized to buy were forwarding invoices to vendors without having the document reviewed and/or approved.

The audit also revealed that purchase orders exceeded competitive bid requirements and limits for single daily purchases. In one case the same person who signed the purchase order signed the invoice for payment. This longstanding system left some district divisions responsible for purchases over which they had no control. Some items, such as hand tools, were purchased repeatedly, even though purchase orders were for supplies and services only.

## EMERYVILLE UNIFIED SCHOOL DISTRICT (EUSD)

Superintendent J.L. Handy came to Emeryville from Compton, a troubled Los Angeles County district that had been in receivership. When Handy left Compton, the district was $5 million in debt. He was nevertheless hired by the small Bay Area district of Emeryville, with three schools, some 900 students, and a budget surplus of $1.5 million when he arrived. On the watch of superintendent Handy, Emeryville accumulated debts of $1.8 million.

**TABLE 11**

**(EUSD) COMPONENTS OF FORECAST GENERAL FUND BALANCES**
**June 30, 2000 and 2001**

| | 6-30-2000 Audited | 1st Interim Report | 2nd Interim Report | 3rd Interim Report |
|---|---|---|---|---|
| Reserves for Stores Revolving Cash and Restricted Funds | $139,783.00 | $15,000.00 | $15,000.00 | $15,000.00 |
| Reserve for Economic Uncertainty | 320,842.00 | 319,269.00 | 323,174.00 | |
| Undesignated Amount | -1,482,525.00 | -1,800,390.00 | -1,731,157.00 | -2,308,215.00 |
| Forecast Ending Fund Balance | ($1,342,742.00) | ($1,464,548.00) | ($1,396,888.00) | ($1,970,041.00) |

Source: Emeryville Unified School District: Comprehensive Assessment, Presented by The Fiscal Crisis and Management Assistance Team (FCMAT), 2001

Following a two-month investigation in FY 2000, the Fiscal Crisis Management Assistance Team (FCMAT) found that the district, with an annual budget of $8 million, would not be able to pay salaries and expenses through the end of the school year.

It emerged that Superintendent Handy had funneled $213,000 to his girlfriend, Jean M. Cross of Laguna Hills.[97] Handy also purchased, with public funds, 22 roundtrip airline tickets to Laguna Hills where he and Cross jointly own property.[98] Handy's abuses were egregious, though shy of the $600,000 in three years of accumulated travel expenses East Palo Alto (Ravenswood City School District) schools superintendent Charlie Mae Nigh, which included such destinations as Hawaii, Spain, and Cuba.[99]

In June 2001, Handy was charged with misuse of public funds relating to his expenditures made with the district credit card, including extended stays in lavish hotel suites, leather goods, cigars, alcohol, and thousands in airline travel.[100] Two elected school board members also resigned during this same period.

The FCMAT Comprehensive Fiscal Assessment of 2001 revealed the 18 faulty areas of district operations inappropriate charges to bond funds, including unauthorized personnel costs.[101]

The table below is a synopsis of EUSD's prohibited expenditures made from the bond fund by object code including all transactions from January 1996 through February 28, 2001.

**TABLE 12**

| (EUSD) BOND FUND ANALYSIS | | |
|---|---|---|
| All Transactions From January 1996 through February 28, 2001 | | |
| Description | Object Code | Total Dollars |
| Teacher Salaries | 1000-1999 | $9,922.86 |
| Classified Salaries | 2000-2999 | 286,222.97 |
| Health & Welfare Benefits | 3000-3999 | 87,451.44 |
| Supplies | 4000-4999 | 86,067.44 |
| Other Services | 5000-5999 | 62,210.12 |
| Equipment | 6000-6999 | 411,922.63 |
| **Total Disallowed Expenditures** | | **$943,797.46** |

Source: Emeryville Unified School District: Comprehensive Assessment,
Presented by the Fiscal Crisis and Management Assistance Team (FCMAT), 2001

The scope of the FCMAT review of EUSD did not include instances of fraud other than those already prosecuted or alleged by the Alameda County District Attorney. Several control weaknesses were identified that increase the possibility that additional instances of fraud could occur and not be identified.

## ORCHARD SCHOOL DISTRICT

On August 10, 2001, the State Superintendent of Public Instruction Delaine Eastin called for an investigation into the alleged financial improprieties of Dr. Terry Jones, superintendent of the Orchard School District in Santa Clara County. The *San Jose Mercury News* reported that superintendent Jones had indulged in such extravagances as a $79,856 2000 model BMW 740IL and a $485 Cartier fountain pen, and that he had submitted $40,000 in national and international travel reimbursements during the past three years.[102] The destinations include Detroit, New York (at least five times), Minneapolis, Washington, D.C., Denver, New Orleans, Dallas, Charlotte, Pittsburgh, Chicago, St. Louis, Las Vegas, London, and Cuba.

These junkets would be questionable even for the superintendent of a major district but are entirely inconsistent for Orchard, a single K–8 school with 785 students and an annual budget of $4.3 million.[103] By contrast, San Jose Mayor Ron Gonzales, who manages a $1.8 billion budget in a city of nearly one million people, has spent only $12,500 on travel since taking office in 1999.[104] At an annual salary of $133,000 Jones is among the highest paid superintendents in the state. Yet none of the oversight mechanisms of the California Department of Education were able to prevent his abuses.

**TABLE 13**

**SFUSD'S ABUSES OF VOTER-APPROVED BOND AND TAX MEASURES**

| Voter-Approved Measure | Year | Purpose | Amount | Disallowed Expenditures |
|---|---|---|---|---|
| Proposition A (Bond) | 1988 | Asbestos abatement; handicap-access improvements; repair, rehabilitation and replacement of lighting, wiring, toilets, plumbing, window sashes and heating and ventilation systems; playgrounds and play structures; exterior painting and waterproofing, and upgrades to and expansion of libraries and science labs. | $90 million | $22 million to salaries, including nonteaching staff |
| Proposition A (Bond) | 1997 | $39 million for building replacement projects and new wings at six sites; $34 million for technology-oriented wiring and power upgrades; $13 million for science labs; and $4 million for seismic strengthening projects | $140 million | $4.8 million |
| Proposition A (Bond) | 1994 | Modernization and construction | $95 million | Projects overspent by $47.2 million; and $3.2 million to non-teacher salaries |
| Proposition B 20- year city property tax increase) | 1990 | Earthquake repairs, seismic upgrades at four elementary schools and preschool centers; and fire-safety work to correct code violations not covered by Proposition A | Initially, up to $9 million annually (tapering off to roughly $6 million annually in later years) for a total of roughly $150 million by the year 2010 | $38 million to salaries, and salary increases, including nonteaching staff |

Source: Chuck Finnie, Julian Guthrie, Chronicle Staff Writers,"A grave injustice against the children. S.F. school officials squandered millions of bond, tax funds, concealed deficits from voters while seeking millions more," San Francisco Chronicle, November 11, 2001

## STATE IRRESPONSIBILITY FUELS DISTRICT WASTE

The above examples far from exhaust the extent of waste at the district level. Compton and Richmond, a troubled Bay-Area district, lead a number of other cases. While the waste and corruption vary, some principles emerge.

State-level waste, with the CDE acting primarily as a courier for funds rather than providing tough oversight, facilitates waste at the district level. While the lack of responsibility at the state level is largely out of their control, there are measures districts can take. The scope of audits focusing on school district finances should be expanded to:

- identify wasteful spending;
- recommend cost savings;
- ensure compliance with best financial management practices; and
- where appropriate, the audit should identify and attempt to redirect cost savings to target students and school site needs directly related to the learning process.[105]

Audits and performance reviews have more to do with compliance than with encouraging the best financial management practices. Although compliance is important, districts must do much more than generate reports. For their part, legislators must do more than allow the massive and immoral waste that has cheated California's children.

## HOW LEGISLATORS CAN STOP WASTE AND HELP CHILDREN

By any definition the amount of waste at both the local and state level is enormous. As noted, some of the worst abuses occur in the smallest districts, where overpaid superintendents live like royalty on taxpayer funds intended for the classroom. Larger districts such as San Francisco play shell games with bond money. And the state Department of Education keeps the funds flowing with few meaningful controls. The exact amount of waste, unfortunately, cannot be determined precisely. As the Little Hoover Commission has pointed out:

> No one has placed a price tag on administering school finances and ensuring compliance with restrictive requirements. There has been no calculation of the diverted energy or resources that may be better spent on teaching students. And no study has quantified taxpayer disillusionment with education that stems from the financing complexity.[106]

It is safe to say, however, that over the years tens of billions of tax dollars have been lost, an amount unacceptable by any responsible standard. Such losses were not accidental. Rather, this waste has occurred with government decision makers, the supposed "experts," directing where tax dollars should go. To regard this waste as an accounting matter, as some do, only compounds the problem.

These billions of dollars were apportioned for the benefit of California's children, the students who represent the future of the state. Given the grotesque dimensions of the waste, coupled with poor classroom performance, it is not stretching the matter to say that these funds were stolen from the children. It is theft, as surely as if the schoolyard bully had shaken down children for their lunch money.

California's leadership should disregard the claim of status quo apologists that parents cannot be trusted to make wise decisions about the education of their children. How many parents, after all, would agree to build a high school on a contaminated site then abandon it after spending $200 million? How many parents would hire a superintendent with a record of irresponsibility and fraud, who used taxpayer funds to fly the world like a potentate? Indeed, a program of parental choice in education, whether called vouchers or opportunity scholarships, would eliminate a great deal of wasteful government education spending.

**Given the grotesque dimensions of the waste, coupled with poor classroom performance, it is not stretching the matter to say that these funds were stolen from the children. It is theft, as surely as if the schoolyard bully had shaken down children for their lunch money.**

Instead of government officials funneling money into wasteful programs year after year, parents would be able to direct those dollars to the private or public school of their choice according to their interest in improving the achievement of their children. Schools that demonstrate their ability to meet the interests of parents would be rewarded, while those schools that fail to do so would be punished in the marketplace. The accountability would be direct and the judgment of consumers would be swift. In comparison, the current school financing system, as the Little Hoover Commission observes, is the antithesis of transparency, clarity, and accountability:

> It is very difficult for consumers and taxpayers to get straight answers about what is going on financially with schools. If a parent complains that his child has no textbooks, the teacher points to district procedures that delay purchasing and the district points to the State for failing to provide adequate funding – and the State points to the district for making poor choices on how to use its resources. . . . Blame is continually shifted, both upwards and downwards, and any desire on the part of the public to help resolve school financial problems soon evaporates.[107]

Where school choice has been implemented, education costs have gone down, not up. In Milwaukee, school-choice opportunity scholarships are about half the cost of the per-pupil expenditure by the Milwaukee school district. Further, in 1999, nearly half of the private schools participating in the Milwaukee program returned part of the voucher money back to the state because their per-pupil costs were still less than the voucher amount.[108]

One private-school administrator summed up the reason for this frugality by saying of her school, "We don't have to pay for huge administration or a lot of red tape."[109] The Milwaukee Journal Sentinel, the city's major daily, observed that: "While public schools in Wisconsin have their budgets capped by state-imposed revenue limits, private schools' spending tends to be capped by market forces. If tuition becomes too high, private schools hurt their own ability to compete for student customers."[110] Voucher-receiving students, it should be noted, performed better than their peers in public schools.

**Parental choice in education would overhaul the system and make financial efficiency, high student achievement, and parental satisfaction the priority benchmarks.**

There have been many recommendations by various experts and organizations about how to improve California's school financing system. A number of these recommendations are worthwhile, especially some of those made by, for example, the LAO. However, even those worthwhile suggestions have often been narrowly tailored and would not lead to anything approaching a total overhaul of the system. The LAO has also, it should be noted, recommended a pilot program of school choice for children in the state's worst schools.

With student performance still at dismal depths and a wasteful bureaucratic system seemingly impervious to reform, it is time for state leaders to think outside of the conventional box. Parental choice in education would overhaul the system and make financial efficiency, high student achievement, and parental satisfaction the priority benchmarks. That outcome will require courageous action by state leaders. But it is the best way to halt massive waste and provide California's children with the quality education they deserve.

## NOTES

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9 *Ibia.*, p. 13.
10 *Ibia.*, p. 14.
11 *Ibia.*
12 *Ibia.*
13 *Ibia.*, p. 15.
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15 *Ibia.*, p. 18.
16 *Ibia.*, p. 16.
17 *Ibia.*, p. 19.
18 *Ibia.* The BSA recommends a four-pronged strategy for monitoring performance: 1) establish budgets for individual program reviews and audits and compare them to actual hours, 2) evaluate the timeliness of corrective actions, 3) quantify disallowed costs and compare them to the cost of program reviews and audits, and 4) compare the results of current-year program reviews and audits to prior-year results.
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25 *Ibia.*, p. 25.
26 *Ibia.*, p. 2.
27 *Ibia.*, p. 27.
28 *Ibia.*, p. 28.
29 *Ibia.*
30 *Ibia.*
31 *Ibia.*, pp. 28-29.
32 *Ibia.*, p. 29.
33 *Ibia.*
34 *Ibia.*, p. 30.
35 *Ibia.*
36 *Ibia.*, pp. 30-31.
37 *Ibia.*, p. 31.
38 *Ibia.*
39 *Ibia.*
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41 *Ibia.*, pp. 31-32.
42 CDE response letters dated April 7, 2000, September 26, 2000, and February 2, 2001.
43 CDE response letter, February 2, 2001.
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47 *Ibia.*
48 *Ibid.*
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72 *Ibia.* Also, the study found that in response to class-size reduction, "many schools reallocated special education facilities, and many teachers switched from teaching special education students to teaching regular K–3 classes." *Ibia.*, p. 12. According to the Little Hoover Commission, in referring to class-size reduction, "one district official told the Commission he believed a higher priority for his district would have been computers and technology in high school if the district had been free to make decision on spending the funds in a way that met local needs." See Little Hoover Commission, *op. cit.*, p. 39.
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74 Daniel Weintraub, "California has school accountability in name only," *Sacramento Bee,* September 23, 2001.
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76 Little Hoover Commission, *op. cit.*, 4-5.
77 Legislative Analyst's Office, "Analysis of the 1994–95 Budget Bill," Sacramento, CA, February 1994: p. E-49.
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79 California Department of Education, Delaine Eastin, State Superintendent of Public Instruction Sacramento, California. "Report on flexibility transfers for K–12 education, 1999–00: A Report to the Legislature as Required by Control Section 12.40 of the Budget Act of 1999," July 2001, p. 1.
80 *Ibid.*
81 *Ibid.*
82 *Ibid.*, Chart A.
83 The largest expenses in every school system are salaries and benefits, particularly to pay for teachers. Personnel salaries and benefits typically are 80 to 85 percent of a district's expenditures. Employees are grouped into four categories: teachers (certificated) in classrooms or specific programs; pupil services, such as counselors or librarians; administrators; and classified, such as instructional aides, bus drivers, custodians, and secretaries. Instructional materials, utility costs, and building maintenance are among the other types of expenditures. See "Structural Influences on the Internal Allocation of School District Resources: Evidence From New York State," D.H. Monk and S. Hussain, *Educational Evaluation and Policy Analysis*, Vol. 22, No. 1, Spring 2000. Viewable at http://www.edsource.org/edu_fin.cfm#how.
84 California Codes, Education Codes, Section 41020. (a) It is the intent of the Legislature to encourage sound fiscal management practices among school districts for the most efficient and effective use of public funds for the education of children in California by strengthening fiscal accountability at the district, county, and state levels. Viewable at http://www.cde.ca.gov/sfsdiv/audit/ec41020.html.
85 The accounting systems of school districts and county offices of education are organized and operated on a fund basis. A fund is an accounting entity with a self-balancing set of accounts recording financial resources and liabilities. It is established to carry on specific activities or to attain certain objectives of an LEA in accordance with special regulations, restrictions, or limitations. The Fund field applies to revenue, expenditure, and balance sheet accounts. See *California School Accounting Manual*, Section 101(1)—Fund/Account Group, viewable at http://www.cde.ca.gov/fiscal/sacs/csam/.
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110 *Ibid.*

## ABOUT THE AUTHORS

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# GRAND THEFT EDUCATION: WASTEFUL EDUCATION SPENDING IN CALIFORNIA

by Lance T. Izumi, K. Lloyd Billingsley, and Diallo Dphrepaulezz

November, 2002

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