

# Audit Highlights



Highlights of performance audit report on the Department of Education, Use of Class-Size Reduction Funds by School Districts issued on January 18, 2017. Legislative Auditor report # LA18-02.

## Background

Responsibility for educating K-12 students is shared among the State, local school districts, and charter schools. The Department is responsible for regulating and supporting the school districts and charter schools.

The Legislature first provided school districts with CSR funds in 1991. The Legislature intended districts to use CSR funds to supplement funding sources, not to supplant existing funding sources. The 2013 Legislature approved "Regular" CSR funding of \$161.7 million for grades 1 to 3 in 2014 and \$166.5 million in 2015. It also provided Kindergarten CSR funds of \$25.5 million in 2014 and \$27.9 million in 2015.

During the 2010 Special Session, the Legislature reduced the amount of funds provided to school districts due to the State's fiscal crisis. However, to allow flexibility in addressing budget shortfalls, the Legislature allowed school districts to use a portion of its CSR funds to minimize the impact of budget reductions on class sizes in grades 4 to 12. This portion of CSR funds is referred to as "Plus 2" savings. This flexibility in using some CSR funds was continued by the 2011 and 2013 Legislatures and remained in effect until June 30, 2015.

## Purpose of Audit

This audit was required by Chapter 499, Statutes of Nevada, 2015 (A.B. 278). The purpose of this audit was to: (1) evaluate the use of CSR funds by each school district for the 2013-2015 biennium, and (2) analyze the use of CSR funds for school districts that elected the Plus 2 flexibility, including whether Plus 2 savings were used to minimize the impact of budget reductions on class sizes in grades 4 to 12.

## Audit Recommendations

This audit report contains two recommendations to the Department of Education for improving accountability over school districts' use of CSR funds. The Department accepted the two recommendations.

## Recommendation Status

The Department's 60-day plan for corrective action is due on April 13, 2017. In addition, the six-month report on the status of audit recommendations is due on October 13, 2017.

# Use of Class-Size Reduction Funds by School Districts

## Department of Education

### Summary

Class-Size Reduction (CSR) funds expended by school districts for fiscal years 2014 and 2015 were appropriately used to pay for the costs of CSR-grade teachers. CSR funds allowed many districts to meet, or come relatively close to meeting, target pupil-to-teacher ratios for each CSR grade on a districtwide basis. Nevertheless, to improve accountability of CSR funds, the Department of Education (Department) needs to better monitor ratios on a districtwide basis to help ensure target class-size ratios are met in the future. In addition, we discovered that the Department did not identify more than \$6 million of unused Kindergarten CSR funds, or ensure that those funds were returned to the State when the time for using them had passed.

We found that school districts used the portion of CSR funds permitted to be spent on teachers for grades 4 to 12 ("Plus 2" savings) as intended by the Legislature. Plus 2 savings, generated by increasing class sizes by 2 pupils in grades 1 through 3, were authorized to minimize the impact of budget reductions on class sizes in the upper grades. Although the school districts that chose to utilize Plus 2 funds for such purposes did not submit quarterly reports on class sizes for grades 4 to 12, as required by law, we used other information to obtain assurance that the savings were used as intended. Nevertheless, the Department should have ensured school districts reported class-size information for the upper grades. Without that type of information, the Department could not monitor that the districts used Plus 2 savings to meet the program objectives.

### Key Findings

Our tests support that amounts expended by the districts from their CSR funds for fiscal years 2014 and 2015 were used for the salaries and benefits of CSR-grade teachers. Furthermore, most districts met target class-size ratios for many grades, or came relatively close to meeting them, on a districtwide basis. Specifically, districts met target ratios in about 70% of grades in fiscal years 2014 and 2015. Another 20% of grades came relatively close to target ratios, based on our analysis. We analyzed districtwide ratios because that is the basis used by the State to determine the amount of CSR funds provided to districts. (page 9)

The Department needs to improve its monitoring of class-size ratios, by grade, on a districtwide basis. Since reporting requirements changed in 2013 from a districtwide basis to a school-level basis, the Department's focus has been on monitoring school-level ratios. Although monitoring ratios at the school-level is important, districtwide ratios remain important. Monitoring districtwide ratios, by grade, provides assurance to State and local decision-makers that districts are spending enough funds on teachers to achieve target ratios. For districts not meeting target ratios on a districtwide basis, the Department should request a plan of what efforts will be made to meet ratios in the future, and monitor progress toward target ratios. (page 13)

Clark County School District did not return to the State approximately \$6.1 million of unused Kindergarten CSR funds received during the 2013-2015 biennium, as required by law. District personnel cited an inability to hire enough teachers and problems setting up enough classrooms as the reasons why funds were not spent. Due to an inadequate review of districts' annual reports of expenditures, the Department did not detect the unused funds. (page 14)

Quarterly reports filed by the districts did not include upper grade pupil-to-teacher ratios (grades 4 to 12) as required under the Plus 2 legislation. The reports were a key part of the accountability the Legislature intended over the use of Plus 2 savings. The Department did not ensure that districts provided this information. (page 20)

Our analyses of various data indicated Plus 2 savings were used by school districts as intended by the Legislature. This included analyses showing: (1) minimal or no increases in upper grade class sizes, and (2) increases in instructional expenses while districts' revenues were flat or declining. These analyses provide assurance that Plus 2 savings were spent to minimize the impact of budget reductions on class sizes in upper grades, as required by education funding legislation. (page 20)