

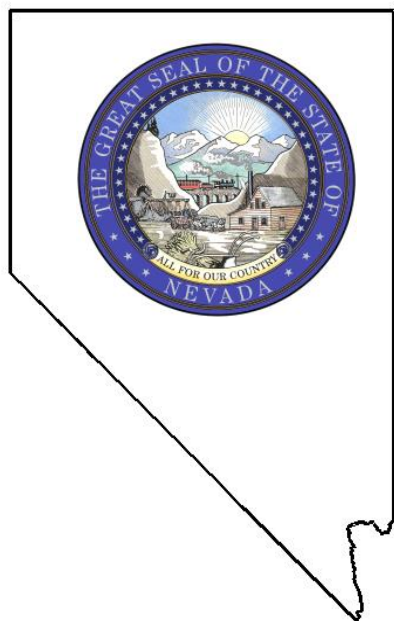
# STATE OF NEVADA

---

## Performance Audit

Department of Education  
Use of Class-Size Reduction Funds  
by School Districts

2016



Legislative Auditor  
Carson City, Nevada

---

# 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)

STATE OF NEVADA  
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING  
401 S. CARSON STREET  
CARSON CITY, NEVADA 89701-4747

LEGISLATIVE COMMISSION (775) 684-6800  
MICHAEL ROBERSON, *Senator, Chairman*  
Rick Combs, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821  
PAUL ANDERSON, *Assemblyman, Chairman*  
Cindy Jones, *Fiscal Analyst*  
Mark Krmpotic, *Fiscal Analyst*



RICK COMBS, *Director*  
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830  
ROCKY COOPER, *Legislative Auditor* (775) 684-6815  
SUSAN E. SCHOLLEY, *Research Director* (775) 684-6825

Legislative Commission  
Legislative Building  
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit on the Department of Education, Use of Class-Size Reduction Funds by School Districts. This audit was required by Chapter 499, Statutes of Nevada, 2015 (A.B. 278). The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes two recommendations for improving accountability over school districts' use of class-size reduction funds. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Rocky Cooper".

Rocky Cooper, CPA  
Legislative Auditor

November 30, 2016  
Carson City, Nevada

# Use of Class-Size Reduction Funds by School Districts

## Table of Contents

Introduction .....	1
Background .....	1
Scope and Objectives .....	6
Class-Size Reduction Funds Were Spent on Teachers.....	7
Explanation of CSR Funding .....	7
Most Target Ratios Are Being Met on Districtwide Basis .....	9
Several Million Dollars in Unused Funds Were Not Returned to the State.....	14
Districts Used “Plus 2” Savings as Intended by Legislature.....	16
Legislature Provided Districts Flexibility to Address Budget Shortfalls .....	16
Dispute Over Transfer of Plus 2 Savings to Districts’ General Funds .....	17
Upper Grade Ratios Needed to Provide Accountability for Plus 2 Savings Were Not Submitted.....	20
Analyses Performed to Verify Plus 2 Savings Were Spent Appropriately .....	20
Appendices	
A. Assembly Bill 278 .....	23
B. Audit Methodology.....	26
C. Response From the Department of Education.....	30

---

# Introduction

## Background

The Nevada Department of Education's (Department) mission is to improve student achievement and educator effectiveness by ensuring opportunities, facilitating learning, and promoting excellence. At the State level, the system of public elementary and secondary (K-12) education is governed through the Department, headed by the Superintendent of Public Instruction, with oversight provided by the State Board of Education. The State Board of Education establishes policies and adopts regulations to govern all functions of the State relating to public schools not conferred by law on some other agency.

In Nevada, responsibility for the education of K-12 students is shared among the State, local school districts, and charter schools. The Department is responsible for regulating and supporting the State's school districts. Under the authority granted to it by the Nevada Constitution, the Legislature established a system of school districts to provide for a mechanism of local control. Boards of trustees for the districts carry out a number of policy roles, which include: approving curriculum; enforcing courses of study prescribed by statute; administering the State system of public instruction; establishing district policies and procedures; and providing oversight of the district's budget. Nevada public education includes 17 local school districts. Exhibit 1 provides the number of K-12 pupils enrolled, by district, in the 2014-2015 school year.

**Enrollment by District  
2014–2015 School Year**

**Exhibit 1**

	<b>Enrollment</b>
Clark County	317,759
Washoe County	63,070
Elko County	9,854
Lyon County	8,081
Carson City	7,579
Douglas County	6,052
Nye County	5,140
Churchill County	3,486
Humboldt County	3,473
White Pine County	1,236
Lander County	1,049
Lincoln County	996
Pershing County	692
Mineral County	474
Storey County	401
Eureka County	247
Esmeralda County	74
<b>Total</b>	<b>429,663</b>

Source: Department’s audited count day enrollment worksheet.

The Nevada Plan is the means used to finance K-12 education in the State’s public schools. Under the Nevada Plan, the State determines an amount that is to be made available to each of the school districts. In addition to revenues received under the Nevada Plan, school districts receive “categorical” funds that may only be expended for designated purposes. Categorical funds include the amounts for the program to reduce pupil-to-teacher ratios, commonly referred to as the Class-Size Reduction (CSR) program.

**History of the  
Class-Size  
Reduction  
Program**

The 1989 Legislature enacted the Class-Size Reduction Act (Chapter 864, Statutes of Nevada), designed to reduce pupil-to-teacher ratios in public schools in the earliest grades where core curriculum is taught. Funding was first provided in fiscal year 1991.

The intended goal of the Legislature has been to ultimately achieve a pupil-to-teacher ratio of not more than 15 pupils per teacher in kindergarten through grade 3. However, CSR funding for fiscal years 2014 and 2015 was provided to finance the salaries and fringe benefits of teachers to achieve a pupil-to-

---

teacher ratio of 21:1 in kindergarten (16:1 in selected kindergarten classrooms in which pupils are most at risk of failure), 16:1 in grades 1 and 2, and 19:1 in grade 3.

#### **Alternative CSR Program Available to Rural Districts**

Based upon a pilot program in Elko County, the 2005 Legislature enacted legislation, codified in Nevada Revised Statutes (NRS) 388.720, which provides flexibility in implementing pupil-to-teacher ratios for school districts other than Clark and Washoe. For districts choosing this option, pupil-to-teacher ratios are limited to not more than 22:1 in grades 1 through 3, and not more than 25:1 in grades 4 to 6. Several school districts followed these alternative CSR program ratios in fiscal years 2014 and 2015.

#### **Basic Requirements for CSR Program Expenditures**

The Legislature has placed certain conditions on the use of CSR funds. The money for CSR:

- Must not be used to settle or arbitrate disputes between a recognized organization representing employees of a school district and the school district, or to settle any negotiations.
- Must not be used to adjust the districtwide schedules of salaries and benefits of the employees of a school district.
- May be applied first to pupils considered most at risk of failure.

In addition, CSR funds must not be distributed to a school district unless that school district has:

- Filed a plan for achieving the required pupil-to-teacher ratios set forth in NRS 388.700 with the Department of Education.
- Demonstrated that, from funding sources other than CSR funds, a sufficient number of classroom teachers have been employed to maintain the average pupil-to-teacher ratios that existed for the 3 school years preceding the start of the CSR program.

### CSR Program Funding From the 2013 Legislative Session

The 2013 Legislature approved funding of \$161.7 million for “Regular” CSR for fiscal year 2014 to finance the salaries and benefits of 2,180 teachers, and \$166.5 million for fiscal 2015 for the costs of 2,194 teachers. Exhibit 2 provides detail on CSR funds provided to the districts in fiscal years 2014 and 2015.

### CSR Funding by District Fiscal Years 2014 and 2015

Exhibit 2

District	FY 2014 Regular CSR		FY 2015 Regular CSR	
	FTEs	Funding	FTEs	Funding
Carson	42.25	\$ 3,276,394	41.75	\$ 3,239,389
Churchill	15.25	1,290,978	15.25	1,227,751
Clark	1,658.25	121,993,949	1,680.50	126,867,792
Douglas	26.50	2,111,905	27.00	2,137,973
Elko	58.75	4,543,068	58.25	4,668,584
Eureka	0.50	50,361	0.25	62,621
Humboldt	16.50	1,247,129	14.00	1,244,218
Lander	3.00	295,485	3.25	284,597
Lincoln	1.00	77,916	0.75	79,479
Lyon	29.75	2,271,951	29.50	2,272,998
Mineral	2.75	200,568	2.00	153,898
Nye	16.00	1,350,187	15.50	1,340,030
Pershing	3.75	331,309	3.75	315,071
Storey	3.00	259,811	3.00	193,423
Washoe	295.75	21,907,057	292.75	21,952,544
White Pine	7.25	496,805	6.25	427,568
<b>Total</b>	<b>2,180.25</b>	<b>\$161,704,873</b>	<b>2,193.75</b>	<b>\$166,467,936</b>

Source: Department of Education records and the state accounting system.

The 2013 Legislature also established additional funding to support reduced kindergarten class sizes, or Kindergarten Class-Size Reduction (KCSR). That funding for fiscal year 2014 was \$25.5 million (\$10 million to purchase portable classrooms and \$15.5 million for additional kindergarten teachers) and for fiscal year 2015 was \$27.9 million (\$4 million for portable classrooms and \$23.9 million for kindergarten teachers). The funding was enacted to support the costs of about 350 additional licensed kindergarten teachers for fiscal year 2015. In addition to reporting requirements, KCSR funding must be accounted for separately from any other money received by school districts and used only for the purposes specified. During the 2015 Legislative Session,



---

KCSR funds were combined with funds to provide full-day kindergarten statewide.

### **Temporary Revisions to the CSR Program - “Plus 2” Flexibility**

During the 26th Special Session of the Nevada Legislature in 2010, to address the State’s ongoing fiscal crisis, the Legislature reduced the basic support guarantee per student for fiscal years 2010 and 2011 from the amounts passed by the 2009 Legislature. To allow school districts flexibility in addressing budget shortfalls, the Legislature temporarily revised provisions governing how school districts could use a portion of its CSR funds as follows:

- For fiscal year 2011, school districts were allowed to increase class sizes in grades 1, 2, and 3 by not more than 2 pupils. This allowed pupil-to-teacher ratios of 18:1 in grades 1 and 2 and 21:1 in grade 3.
- If a school district elected to increase class sizes in this manner, all money that would have otherwise been expended by the school district to achieve the lower class sizes in grades 1 to 3 (referred to as “Plus 2” savings) must have been used to minimize the impact of budget reductions on class sizes in grades 4 to 12.
- For reporting purposes, school districts that elected to increase class sizes in grades 1 to 3 were required to report the pupil-to-teacher ratios achieved for each grade level from grades 1 to 12.

This legislation became effective on March 10, 2010, and was to sunset on June 30, 2011. However, the provisions were continued by the 2011 and 2013 Nevada Legislatures and remained in effect until June 30, 2015.

### **New Reporting Requirements On Class Sizes**

Legislation passed in 2013 (A.B. 2 of the 27<sup>th</sup> Special Session) established new reporting requirements for school districts on pupil-to-teacher ratios, effective in fiscal year 2014. Some of the new requirements are:

- Submitting reports on pupil-to-teacher ratios quarterly instead of annually;
- Reporting pupil-to-teacher ratios on a school by school basis instead of only districtwide;
- Reporting average daily attendance; and
- Posting of pupil-to-teacher ratios and other CSR information on school district websites.

## **Scope and Objectives**

The scope of our audit focused on school districts' spending of CSR funds in fiscal years 2014 and 2015. Our audit objectives were to:

- Evaluate the use of CSR funds by each school district for the 2013-2015 Biennium.
- 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.

This audit was required by Chapter 499, Statutes of Nevada, 2015 (A.B. 278), included at Appendix A, and was conducted pursuant to NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

---

# Class-Size Reduction Funds Were Spent on Teachers

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.

## Explanation of CSR Funding

The Legislature provided school districts with CSR funds beginning in fiscal year 1991. At that time, the class sizes for grades 1 through 3 varied from district to district. To achieve the class-size goals statewide, the CSR Act was passed to provide enough funding to each district to pay for additional teachers needed to bring the class-sizes down to the target ratios. Therefore, districts with higher ratios at that time received a proportionately greater percentage of the CSR funds since they were further from the target ratios.

### **Districts Are Expected to Also Use Non-CSR Funds to Maintain Certain Ratios**

The Legislature intended school districts to use CSR funds to supplement existing funding sources of the school district, not to supplant existing funding sources. As a condition of receiving CSR funds, each district must demonstrate that, from funding sources other than CSR funds, a sufficient number of classroom teachers are employed to maintain the ratios that existed for the 3 school years preceding the start of the CSR program. Those

average pupil-to-teacher ratios in 1988, 1989, and 1990, are referred to here as the historical benchmark ratios. This is explained further with a hypothetical example, outlined in Exhibit 3.

### Hypothetical Example: “Sample School District” Funding to Meet Target Ratios

### Exhibit 3

#### Historical Benchmark Ratio (1988-1990)

- Sample School District had an average of 60 1st grade students for the 3 years from 1988 through 1990. Since the District had three 1st grade teachers, the pupil-to-teacher ratio was 20:1 (this established the historical benchmark ratio).

#### Adding CSR Teachers Based on Historical Benchmark Ratio (1991-1992)

- Beginning in 1991, CSR funds were allocated to Sample School District to employ enough additional teachers to achieve the legislatively determined target ratio of 15:1 on a districtwide basis. Assuming there were 60 1st grade students again, Sample School District would continue to employ the three 1st grade teachers paid for with non-CSR funds (to meet the historical benchmark ratio of 20:1), and one new 1st grade teacher would be added and paid for with CSR funds. The 4 teachers for the 60 students achieves a 15:1 ratio.

#### Non-CSR Funds Cover Most Cost Increases (1993-Present)

- Each biennium, the State adjusted the non-CSR funding amount (called the basic support guarantee) to cover rising teacher costs, such as increases in health insurance and retirement contributions. Non-CSR funds are paid on a per-pupil basis, to pay for additional teachers as enrollment increases.

#### Most New Positions Paid With Non-CSR Funds

- Continuing with the example, for 2014, Sample School District projected upcoming enrollment for 1st grade to be 180 students. Sample School District was still expected to provide enough teachers, paid for with non-CSR funds, to meet ratios of 20:1 (their historical benchmark ratio), which would be 9 teachers. The CSR program would then provide enough funding to pay for the additional teachers needed to achieve the 15:1 ratio, which amounts to 3 CSR-funded teachers. The 12 teachers for the 180 students allow that district to achieve the target ratio of 15:1.

#### Most CSR Funds Used to Pay Existing CSR Teachers

- Most CSR funds appropriated each biennium are used to pay for existing CSR positions, not to reduce class sizes further. That is, the CSR program provides continued funding for the positions that were added in previous years, and provides additional funding when enrollment growth necessitates adding more CSR teacher positions.

Source: Auditor summary based on state laws and discussions with Department of Education and budget personnel.

### **Most CSR Funds Are Used to Pay for Existing Positions**

As noted at the bottom of Exhibit 3, most CSR funds appropriated each year are intended to pay for the ongoing cost of existing teachers added in previous years with CSR appropriations. Exhibit 4 shows the total number of teachers funded by “Regular” CSR funds in fiscal years 2014 and 2015, broken down by number of existing positions funded and the number of new CSR positions.

#### **Number of CSR Positions Funded**

#### **Exhibit 4**

<b>Fiscal Year</b>	<b>Total Number of CSR Positions Funded</b>	<b>Existing CSR Positions Funded</b>	<b>New CSR Positions Funded</b>
2014	2,180	2,144	36
2015	2,194	2,180	14

Source: Auditor compilation from education funding bills.

As shown above, almost all of the CSR funds provided in fiscal years 2014 and 2015 functioned to maintain existing CSR teacher positions and pupil-to-teacher ratios, rather than to reduce ratios further.

### **Most Target Ratios Are Being Met on District-Wide Basis**

Our tests support that amounts expended by the districts from their CSR funds for fiscal years 2014 and 2015 were used to pay 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. Exhibit 5 provides additional details on our analysis of actual districtwide ratios to target ratios in fiscal years 2014 and 2015.

**Analysis of Target Ratios  
Fiscal Years 2014 and 2015 (4<sup>th</sup> Quarters)**

**Exhibit 5**

	FY 2014		FY 2015	
	Number	Percent	Number	Percent
Grades That Met CSR Pupil-to-Teacher Ratio	53	69%	59	72%
Grades That Exceeded Pupil-to-Teacher Ratio by 2 or Less	18	23%	16	19%
Grades That Exceeded Pupil-to-Teacher Ratio by More Than 2	6	8%	7	9%
<b>Totals</b>	<b>77</b>	<b>100%</b>	<b>82<sup>(1)</sup></b>	<b>100%</b>

Source: Auditor compilation from districts' reports.

<sup>(1)</sup> The number of CSR grades is higher in 2015 than 2014 since two more districts chose the alternative program option in 2015. Under the alternative program option, districts are allowed to spend CSR funds on more grades.

We analyzed districtwide ratios because that is the basis used by the State to determine the amount of CSR funds provided to districts. Therefore, districtwide ratios are a critical measure of whether districts are utilizing funds appropriately to meet target class-size ratios. At each school district we performed various procedures to determine whether the applicable target ratios, on a districtwide basis, were met for each grade covered by the CSR program. This included computing the pupil-to-teacher ratios, by grade, based on information in quarterly reports submitted by the districts to the Department. It also included determining the accuracy of the quarterly reports by verifying enrollment numbers to district records, and the number of teachers reported to payroll and other human resource records. Exhibit 6 shows the actual ratios achieved in fiscal year 2015 compared to the target ratios.

**Districtwide Class-Size Ratios  
Compared to Target Ratios  
Fiscal Year 2015 (4<sup>th</sup> Quarters)**

**Exhibit 6**

Grade	K	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
<b>Traditional CSR — Target Ratios by Grade</b>	<b>21</b>	<b>16</b>	<b>16</b>	<b>19</b>
<b>Districtwide Ratios</b>				
Eureka	12	11	13	10
Lander	14	19	20	18
Lincoln	16	15	15	13
Pershing	15	18	16	18
White Pine	19	15	22	20

Grade	K	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>
<b>Alternative CSR — Target Ratios by Grade</b>	<b>21</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Districtwide Ratios</b>							
Carson	23	22	21	19	24	24	n/a
Churchill	21	22	21	26	25	26	n/a
Douglas	21	20	22	23	27	25	25
Elko	20	22	23	23	23	25	25
Mineral	21	17	17	15	15	13	16
Nye	18	21	22	22	27	26	21
Storey	14	23	23	22	28	21	n/a

Grade	K	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
<b>Plus-Two Option — Target Ratios by Grade</b>	<b>21</b>	<b>18</b>	<b>18</b>	<b>21</b>
<b>Districtwide Ratios</b>				
Clark	21	21	21	23
Humboldt <sup>(1)</sup>	19	20	19	21
Lyon	21	18	19	21
Washoe <sup>(1)</sup>	18	17	18	20

Green	Meets target class-size ratios.
Yellow	Exceeds target class-size ratios by 2 or less pupils.
Red	Exceeds target class-size ratios by more than 2 pupils.

Source: Auditor compilation from districts' reports.

<sup>(1)</sup> Ratios on districts' reports were recalculated by auditors for comparability with other districts' ratios.

n/a - Under the alternative CSR option, districts do not have to report 6<sup>th</sup> grade class sizes if they choose not to spend CSR funds on 6<sup>th</sup> grade.

### **Districts Meeting Districtwide Ratios Can Have Schools Exceeding Ratios**

School districts may meet target ratios on a districtwide basis, while still having many schools exceeding target ratios. For example, Washoe County School District met target ratios in all CSR grades in 2014 and 2015, yet ratios for some grades at some schools were not met. This occurs because the State provides funding to school districts to achieve target ratios on a districtwide basis, not for every school to achieve those ratios.

The following example illustrates why certain schools exceed target ratios. Assume a district had 32 students and 2 teachers to achieve a ratio of 16:1. If School A had 18 students and School B had 14 students, School A would be exceeding the 16:1 target ratio. In this example, the district is meeting the target ratio on a districtwide basis, but one of the schools exceeded the target ratio. If the district could reassign 2 of the 18 students at School A to School B, both schools would meet the 16:1 ratio. However, reassigning two students to School B may not be the best solution for many reasons. We cite a few reasons here.

- First, School B could be much further away, which would cause transportation problems and other inconveniences to the family.
- Second, the students might have to be returned back to School A the next year depending on the class sizes in the next grade in the following year.
- Third, the students reassigned to School B may have siblings going to School A. This would not be in the family's best interests.

Schools may also exceed target class-size ratios because there are not enough classrooms or qualified teachers available. Finally, a school may meet a target ratio at the start of the school year; however, the ratio could be exceeded if the number of pupils increases during the year.

State laws governing the CSR program provide flexibility for districts to spend CSR funds in the most effective manner, in



recognition of potential challenges like those noted in the previous paragraph. Under state law, school districts can request a variance from the State Board of Education from the target ratio for each grade and school. Districts can also consider the relative performance and risk factors of a school's students in deciding which schools will be allowed to exceed ratios. The laws regarding the CSR program state:

*The Legislature has specifically designed the laws relating to class-size reduction to allow the local school districts the necessary discretion to effectuate the reduction in the manner appropriate in their respective districts.*

### **Reasons That Some Target Ratios Were Not Achieved on a Districtwide Basis**

The most common reason cited by district personnel for districtwide ratios not being met was inadequate financial resources for the CSR program. Other obstacles cited by the districts include the following:

- Some teachers cannot be counted when computing pupil-to-teacher ratios. This includes art, music, and physical education teachers required under collective bargaining agreements.
- Actual enrollment comes in higher than the projected enrollment that was used to assign staff.
- Difficulty recruiting a sufficient number of teachers.
- Reluctance to implement split-grade classes due to disruption to students.

### **The Department Needs to Improve Its Monitoring of Districtwide Ratios**

The Department needs to improve its monitoring of class-size ratios, by grade, on a districtwide basis. Districtwide ratios are the best measure of whether school districts are using CSR funds as intended by the Legislature. This is true because the amount of CSR funds provided by the State is based on districts meeting class-size ratios 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, as mentioned previously, there are reasonable circumstances in which the target ratios may not be met for a grade at the school level. Monitoring districtwide ratios, by grade, provides assurance to State and local decision-makers that districts are spending enough funds (CSR and non-CSR) 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.

**Several Million Dollars in Unused Funds Were Not Returned to the State**

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 revenues and expenditures, the Department did not detect the unused funds.

Clark County School District received \$11 million for fiscal year 2014 to provide kindergarten at a ratio of 21 pupils per teacher in one-third of the full-day kindergarten classrooms, and in all of the half-day kindergarten classrooms; the District expended \$7.8 million of the total provided. For fiscal year 2015, the District received nearly \$17.7 million to provide kindergarten at a ratio of 21 pupils per teacher in all classrooms. The District expended \$14.8 million of the total provided. The legislation for education funding (S.B. 522 in the 2013 Session) states that any remaining balance of the allocations for fiscal year 2015, including remaining funds from 2014, must not be committed for expenditure after June 30, 2015, and must be reverted to the State General Fund.

Under NRS 385.175, the Department is responsible for enforcing laws governing K-12 public education. The Department can detect unused CSR funds from reviewing districts' annual reporting of revenues and expenditures required under NRS 387.303. In the absence of controls to identify the amounts of unused CSR funds at

the end of a biennium, there is a risk that expired program funds will be used for purposes other than those intended by the Legislature.

### **Recommendations**

1. Increase the monitoring of each district's ratios, by CSR grade, on a districtwide basis. Districts not meeting ratios on a districtwide basis should be requested to provide a plan of efforts that will be made to meet target class-size ratios.
2. Develop procedures to detect and request unused CSR funds to be returned by school districts to the State General Fund, including enhanced review of districts' annual reporting of revenues and expenditures required under state law.

## Districts Used “Plus 2” Savings as Intended by Legislature

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.

### **Legislature Provided Districts Flexibility to Address Budget Shortfalls**

To address budget shortfalls caused by the economic downturn in 2010, the Legislature provided school districts flexibility with a portion of its CSR funds for a limited time. More specifically, legislation allowed school districts to use a portion of CSR funds for upper grades by increasing lower grade class sizes by two pupils. Increasing lower grade class sizes resulted in savings because fewer teachers were needed for those grades. This portion of CSR funds is often referred to as Plus 2 savings. These savings were to be used to minimize the impact of budget reductions on class sizes in the upper grades.

During the 2010 26<sup>th</sup> Special Session, the Legislature reduced the amount of state funds provided to school districts (the basic support guarantee) for fiscal years 2010 and 2011 from the amounts passed by the 2009 Legislature. However, to allow

school districts flexibility in addressing budget shortfalls during this time, the Legislature temporarily revised provisions governing how school districts could use a portion of its CSR funds. The legislation provided for the following:

- School districts could elect to increase class sizes in grades 1, 2, and 3 by not more than 2 pupils per teacher, to reach pupil-to-teacher ratios of up to 18:1 in grades 1 and 2 and up to 21:1 in grade 3.
- If a school district elected to increase class sizes in this manner, all CSR money that would have otherwise been expended by the school district to achieve the lower class sizes in grades 1 through 3 must have been used to minimize the impact of budget reductions on class sizes in grades 4 through 12.
- School districts that elected to increase class sizes in grades 1 through 3 were required to report the pupil-to-teacher ratios achieved for grades 4 to 12, in addition to the existing reporting for kindergarten to grade 3.

Plus 2 flexibility was in place for 5 fiscal years, and was adopted by four school districts, including Clark and Washoe County school districts. This legislation initially became effective for fiscal year 2011. The Plus 2 flexibility was continued by the 2011 and 2013 Legislatures and remained in effect until June 30, 2015. The Plus 2 flexibility was not continued by the 2015 Legislature.

### **Dispute Over Transfer of Plus 2 Savings to Districts' General Funds**

In 2010, the Department provided guidance to the districts that Plus 2 savings could be transferred to, and spent out of, their General Fund. The districts accounted for the savings in a manner consistent with the Department's guidance for each year the savings were available. However, direction provided by the Department to school districts on how to account for Plus 2 savings changed in 2015, which led to some dispute and frustration among the parties.

### Department Provided Guidance to School Districts

Instructions initially provided to school districts for the use of CSR funds were clear on how the Department intended for districts to account for the Plus 2 savings. Shortly after legislation passed to allow districts flexibility with a portion of its CSR fund allocation, the Department sent an e-mail to the districts with guidance on accounting for the Plus 2 savings. The Department indicated that districts could transfer the Plus 2 savings from the district's CSR Fund to its General Fund. It also explained how the districts should record the transferred amount in its annual report to the Department of its revenues and expenditures (required by NRS 387.303).

### School Districts Followed Department's Guidance

School districts accounted for Plus 2 savings in accordance with guidance provided by the Department. From the first year that the Plus 2 flexibility was granted, Clark and Washoe County school districts transferred the Plus 2 savings from their CSR Fund to their General Fund. This was evident in district accounting records and reports of annual revenues and expenditures provided to the Department required by NRS 387.303. Our review of reports submitted by Clark and Washoe County school districts for fiscal years 2011 through 2015 showed that CSR funds were transferred to each district's General Fund. Exhibit 7 provides detail on the amount of CSR dollars transferred to each district's General Fund in fiscal years 2014 and 2015.

### CSR Funds Transferred to District General Fund Fiscal Years 2014 and 2015

Exhibit 7

	Total CSR Funds Received	CSR Funds Transferred to General Fund	Number of Licensed FTE Positions from Transferred Amounts
<b>Fiscal Year 2014</b>			
Clark	\$121,993,949	\$25,932,339 <sup>(1)</sup>	310
Washoe	\$ 21,907,057	\$ 7,462,122	101
<b>Fiscal Year 2015</b>			
Clark	\$126,867,792	\$36,127,652	447
Washoe	\$ 21,952,544	\$ 7,541,296	102

Source: Department and school district records.

<sup>(1)</sup> Clark was authorized to transfer \$35,211,674 in fiscal year 2014, but chose to transfer less funds.

---

The amounts transferred by both districts were within the limits imposed under the Plus 2 legislation. Furthermore, the districts employed an appropriate number of teachers with the remaining CSR funds for both fiscal years.

### **Department's Directions on Accounting for Plus 2 Savings Changed**

After a turnover in personnel at the Department, fiscal staff adopted different expectations for how districts should account for Plus 2 savings. In November 2015, after fiscal year 2015 was completed and the Plus 2 program had ended, the Department sent correspondence to school district personnel indicating that transferring CSR funds to the districts' General Funds was not allowed. In response, fiscal personnel from both districts explained they were accounting for the Plus 2 savings as instructed by the Department. They further stated that Plus 2 savings were used as intended by the Legislature; that is, to minimize the impact of budget reductions on class sizes in grades 4 to 12.

### **Districts' Views on How Funds Were Accounted For**

Clark and Washoe County school district officials asserted that the Plus 2 savings that were transferred to the General Fund were used to minimize the impact of budget reductions on class sizes, where core subjects were taught, in the upper grades. Specifically, Washoe explained that transferred funds were used as a revenue source to offset a portion of their \$30 million budget shortfall in fiscal year 2011. Other budget measures included furloughs, salary freezes, central services reductions, reduced textbook purchases, and use of reserves. Washoe officials explained that increasing class sizes in grades 4 to 12 would have been the painful option to balance the budget if the Legislature had not granted flexibility under the Plus 2 provision. Washoe continued to transfer a portion of its of CSR funds in subsequent years to assist in balancing its budget while minimizing the impact on class sizes in grades 4 to 12. Clark County school district personnel provided a similar explanation for its use of Plus 2 savings.

**Upper Grade Ratios Needed to Provide Accountability for Plus 2 Savings Were Not Submitted**

Under the provisions of the Plus 2 legislation, the requirement that districts report class sizes in upper grades was a key part of the accountability the Legislature intended over the use of Plus 2 savings. District reporting of class sizes is accomplished by completing reporting forms, which are grade specific, provided by the Department. However, the Department did not design its reporting forms to include upper grade class-size ratios. This form should have required each district to indicate whether it had elected the Plus 2 option, and the forms should have been modified to facilitate reporting of the upper grade ratios. As a result, the districts that elected the Plus 2 option did not include upper grade ratios in their quarterly reports. The lack of enforcement of the requirement for quarterly reporting on upper grade class sizes reduced accountability over the use of Plus 2 savings. Therefore, we performed other procedures to determine whether Plus 2 savings were spent appropriately, as explained below.

**Analyses Performed to Verify Plus 2 Savings Were Spent Appropriately**

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.

We analyzed upper grade ratios to gain assurance on how districts used Plus 2 savings. We compared upper grade class sizes for Clark and Washoe County school districts for fiscal year 2009 (before Plus 2), to fiscal year 2015. Although some upper grade ratios increased, most fiscal year 2015 ratios were either lower or the same as 2009 ratios. Exhibit 8 provides ratios in Clark and Washoe County school districts for upper grades in 2009 compared to 2015.



**Clark and Washoe County School Districts  
Upper Grade Class-Size Ratios**

**Exhibit 8**

District	School Year	Upper Grade Ratios						
		4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>	English	Math	Science	Social Studies
Clark <sup>(1)</sup>	2008-09	27	27	n/a	25	26	28	28
Clark	2014-15	29	29	n/a	23	24	27	27
Washoe <sup>(2)</sup>	2008-09	26	26	27	23	25	27	27
Washoe	2014-15	26	26	26	27	27	27	29

Source: Nevada Report Card.

<sup>(1)</sup> Core subject ratios (English, Math, Science and Social Studies) are for grades 6 to 12.

<sup>(2)</sup> Core subject ratios are for grades 7 to 12.

We also compared both districts' revenues and instructional expenses in the 2013-2015 biennium to the 2007-2009 biennium (the biennium prior to the Plus 2 option). Our comparison, using statistical information from audited financial statements, found Clark County School District's instructional expenses increased even though its Governmental Fund revenues declined. In Washoe County School District, instructional expenses increased significantly more than its revenues. Furthermore, increases in instructional expenses were not the result of salary increases because base teacher salaries in these districts decreased slightly during this time. Our expenditure analyses provides additional assurance that Plus 2 savings were used for instructional expenses. Exhibit 9 shows the districts' changes in revenues and instructional expenses between the two bienniums.

**Analysis of Changes in Revenues Compared to  
Changes in Instructional Expenses**

**Exhibit 9**

District/Biennium	Average Annual Revenues (millions)	Average Annual Instructional Expenditures (millions)
Clark 2007-09	\$2,973.9	\$1,470.2
Clark 2013-15	2,927.8	1,513.3
<b>Increase (Decrease)</b>	<b>\$ (46.1)</b>	<b>\$ 43.1</b>
Washoe 2007-09	\$ 585.8	\$ 314.2
Washoe 2013-15	593.7	359.1
<b>Increase (Decrease)</b>	<b>\$ 7.9</b>	<b>\$ 44.9</b>

Source: Auditor analysis of Clark and Washoe County school districts' audited financial statements.

### **Ratios Provide Greater Accountability Than Examining Accounting Transfers**

The Department focused its attention on the accounting treatment of the Plus 2 savings, but monitoring class-size ratios in the upper grades would have provided greater accountability for how districts used Plus 2 savings. When Clark and Washoe County school districts transferred Plus 2 savings to their General Funds, the use of those funds was not separately classified from other expenditures. Therefore, the use of transferred CSR program funds could not be traced to specific transactions in district accounting records. However, the reporting of how upper grade pupil-to-teacher ratios changed after Plus 2 savings were transferred would have provided greater information about whether savings were used to minimize the impact of budget shortfalls on upper grades. The critical importance of ratios, versus accounting records, in determining whether CSR funds were spent as intended by the Legislature is explained in more detail below.

Most of the funds used to employ teachers are from non-CSR sources. CSR funds are intended to only pay for the additional teachers needed to achieve target ratios. Therefore, the districts' use of CSR funds plays a small factor in determining whether a district will achieve target ratios. Instead, whether a district meets a target ratio is largely determined by how it spends non-CSR funds from local, state and federal sources. Consequently, even if a district used all of its CSR funds for teachers, it still would not achieve target ratios unless it also spent a sufficient amount of its non-CSR funds on teachers. That is, a district can only achieve target ratios by spending enough of its total funds (CSR funds and non-CSR funds) on teachers. Therefore, the best reflection of whether a district has spent enough of its funds on teachers is its districtwide ratios of pupils-to-teachers, not its accounting records.

### **No Recommendation**

Plus 2 flexibility was not continued by the 2015 Legislature; therefore, we have no recommendation for the Department. If Plus 2 flexibility is authorized in future years, Recommendation 1 on page 15 would also address the problem noted in this report regarding Plus 2 savings.

# Appendix A

## Assembly Bill 278

Assembly Bill No. 278—Assemblymen Elliot Anderson, Kirkpatrick, Diaz, Benitez-Thompson, Carlton; Paul Anderson, Araujo, Bustamante Adams, Carrillo, Flores, Hambrick, Joiner, Munford, Neal, Ohrenschaal, Oscarson, Spiegel, Sprinkle, Swank and Thompson

### CHAPTER 499

AN ACT relating to education; requiring the Department of Education to develop certain policies, procedures and guidance related to class-size reduction; requiring the Legislative Auditor to conduct an audit concerning the use of money by each school district for the class-size reduction program; and providing other matters properly relating thereto.

#### Legislative Counsel's Digest:

Existing law provides that the ratio of pupils per licensed teacher in certain grades in elementary school must not exceed specified ratios. Any school district with a school that exceeds this ratio must request a variance from the State Board of Education. (NRS 388.700) Each school district must develop a plan to reduce the district's pupil-teacher ratio per class and submit quarterly reports with certain information related to the district's pupil-teacher ratios to the Department of Education. (NRS 388.720, 388.725) **Section 1** of this bill requires the Department to develop policies and procedures to: (1) monitor the plans developed by each school district; (2) monitor the quarterly reports submitted by each school district; (3) review any variance requested by a school district; and (4) distribute any money to school districts for the reduction of pupil-teacher ratios. **Section 1** also requires the Department to develop guidance for school districts on: (1) developing a plan to reduce pupil-teacher ratios; (2) reporting information related to the reduction of pupil-teacher ratios; and (3) the data that must be monitored by each school district to measure the effectiveness of a plan to reduce pupil-teacher ratios. **Section 1** further requires the Department to communicate with the school districts regarding the expectations of the Department for the use of any money distributed to reduce pupil-teacher ratios, including the minimum number of teachers each school district is expected to employ.

**Section 2** of this bill requires the Legislative Auditor to conduct an audit concerning the use by each school district of money appropriated for the class-size reduction program during the 2013-2015 biennium. The audit must include an examination and analysis of the "plus two" program that authorized school districts to elect to increase class size by two pupils.

EXPLANATION – Matter in *bolded italics* is new; matter between brackets [omitted material] is material to be omitted.

---

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN  
SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

**Section 1.** Chapter 388 of NRS is hereby amended by adding thereto a new section to read as follows:

*The Department shall:*

# Appendix A

## Assembly Bill 278 (continued)

- 2 -

1. *Develop policies and procedures for:*
  - (a) *Monitoring the plan of each school district to reduce the pupil-teacher ratio per class developed pursuant to NRS 388.720, which must include, without limitation, provisions for:*
    - (1) *The review of each plan submitted to the State Board to ensure the adequacy of such plans; and*
    - (2) *The review of any data submitted to the State Board pursuant to NRS 388.710.*
  - (b) *Monitoring the quarterly reports concerning the average daily attendance of pupils and the pupil-teacher ratios in each school district submitted by the board of trustees of the school district pursuant to NRS 388.725 to ensure the completeness and accuracy of such reports.*
  - (c) *The review of any requests for a variance submitted to the State Board pursuant to NRS 388.700, which must include, without limitation, provisions to verify the information in such requests to ensure the accuracy of the reports on variances submitted by the State Board to the Legislature pursuant to that section.*
  - (d) *The distribution of money to each school district for the reduction of pupil-teacher ratios, which must include, without limitation, provisions for:*
    - (1) *The retention of all documents and records related to the distribution; and*
    - (2) *The review of the work performed to determine the distribution of such money to ensure the accuracy of supporting information and the calculations used in making such determinations.*
2. *Provide guidance to the school districts on:*
  - (a) *The development of a plan to reduce the pupil-teacher ratio per class pursuant to NRS 388.720. In developing such guidance, the Department shall:*
    - (1) *Outline the criteria that each plan must include to meet the requirements of NRS 388.720.*
    - (2) *Provide examples of policies, plans or strategies adopted by other states to reduce class sizes.*
  - (b) *The requirements for reporting information related to the reduction of pupil-teacher ratios.*
  - (c) *The data that must be monitored pursuant to NRS 388.710 by each school district and used to measure the effectiveness of the implementation of any plan to reduce pupil-teacher ratios.*
3. *Communicate with the board of trustees of each school district regarding the expectations of the Department for the use of*

# Appendix A

## Assembly Bill 278 (continued)

– 3 –

*any money distributed to reduce pupil-teacher ratios in the school district, including, without limitation, the minimum number of teachers the school district is expected to employ.*

Sec. 2. 1. The Legislative Auditor shall conduct an audit concerning the use by each school district of the money appropriated for the class-size reduction program during the 2013-2015 biennium. The audit must include an examination and analysis of the program authorizing school districts to elect to increase class sizes by two pupils.

2. The Legislative Auditor shall present a final written report of the audit to the Audit Subcommittee of the Legislative Commission not later than February 6, 2017.

Sec. 3. This act becomes effective on July 1, 2015.

20 ~~~~~ 15

# Appendix B

## Audit Methodology

To gain an understanding of the State's CSR program we reviewed statutes, regulations, legislative committee minutes and other information significant to the program. At the Department, we examined budgets and allocation formulas, and performed inquiry of staff and management. Further, we reviewed accounting records, quarterly CSR reports, enrollment data, and audited financial statements of all 16 school districts that received CSR funding. We also interviewed program and fiscal staff at each district. Finally, we discussed the state budgetary process concerning K-12 education funding with Legislative Counsel Bureau fiscal staff.

To evaluate the use of CSR funds by each school district for the 2013-2015 Biennium, we discussed the processes for accounting for CSR revenues and expenditures with personnel from each district. We then tested that CSR funds were spent on teachers by obtaining the payroll records that supported the use of the total amount of CSR expenditures for fiscal year 2015. We then verified the grade and employment location of those teachers through a review of district position rosters, school websites, and discussion with district human resources staff.

To determine the monitoring procedures performed for the CSR program by the Department, we requested written policies and met with Department staff to discuss the procedures they perform.

To determine the reliability of class-size ratios reported by districts, we obtained each district's fiscal year 2014 and 2015 4th quarter CSR reports from the Department, and gathered supporting documentation for the fiscal year 2015 reports from the districts. We discussed the process of compiling the reports with personnel from each district. Then we determined the reasonableness of the enrollment numbers included on the 2015



---

reports, relative to the supporting documentation, and tested the number of teachers reported to accounting records. For the 2014 report, we compared enrollment figures from the reports to the Department's audited enrollment data, and discussed results with district management, when necessary. To assess the adequacy of the number of CSR-funded teachers employed by each district, we compared the reported number of CSR-funded teachers to the number of CSR positions allocated by the Department.

To determine if school districts used CSR program funds to meet target districtwide pupil-to-teacher ratios, we used the information from the fiscal year 2014 and 2015 CSR 4th quarter reports, referred to above. We calculated the districtwide pupil-to-teacher ratios in each CSR grade by dividing total enrollment by the total number of teachers reported. The number of teachers included both CSR-funded teachers as well as teachers paid for with other funding sources. We then compared the calculated districtwide ratios for each grade to the statutorily-defined ratios, and concluded on each districts' conformity with those target ratios.

To identify reasons for not meeting target ratios, we reviewed the variance requests that were prepared by districts, which related to the 3rd and 4th quarter reports for fiscal years 2014 and 2015. We judgmentally selected 6 of 16 school districts, and for those districts we reviewed the variance requests and identified the most common reasons cited.

To evaluate controls over the use of allocated CSR dollars within the funding period, we obtained each district's accounting records for their CSR program funds. We compared the amount of CSR revenues recorded in the districts' accounting records to the amounts recorded in the state accounting system. We also compared the revenue amounts to the districts' recorded CSR expenditures, and discussed fund balances noted with the Department and management of the districts.

To analyze the use of CSR funds for school districts that elected the Plus 2 flexibility, including whether transferred funds were used to minimize the impact of budget shortfalls on class sizes in grades 4 to 12, we reviewed district financial records and other

evidence to identify which districts transferred funds from their CSR Fund during the 2013-2015 biennium; those were found to be Clark and Washoe County school districts.

To gain an understanding of the accounting treatment used by the school districts for the CSR Plus 2 savings, we requested from the Department and from each school district copies of significant guidance or policies that were issued by the Department and distributed to the school districts over the life of the Plus 2 program. We also examined Department funding schedules and districts' audited financial statements. We reviewed testimony by the Department and the school districts during all regular and special legislative sessions that Plus 2 provisions were in effect, as well as interim committee meetings. Further, we discussed the accounting expectations for the Plus 2 savings directly with management and staff from the Department, as well as Clark and Washoe County school districts.

Furthermore, we reviewed the financial reports required by NRS 387.303 and the districts' audited financial statements for evidence that transferred CSR funds were used to minimize the impact of budget reductions by retaining teachers in upper grade levels. We identified the amounts transferred from the districts' CSR Funds to the General Funds using the audited financial statements for fiscal years 2011 through 2015. To test the use of the Plus 2 savings, we requested documentation from both Clark and Washoe county school districts to support the specific expenditures paid for with the Plus 2 savings. District management confirmed that their accounting records did not include the detail to track specific transactions paid for with Plus 2 savings that had been transferred to the General Fund. Alternatively, we performed analytical testing to obtain assurance that the Plus 2 savings were used as intended by the Legislature.

Our analytical testing identified the magnitude of the budget reductions by identifying the amounts of districts' General Fund revenues, as stated in the NRS 387.303 reports, from fiscal year 2008 through fiscal year 2015. We then compared the General Fund revenue for both fiscal years 2008 and 2009 to each of the fiscal years 2011 through 2015, which were the years the Plus 2



program was available. Those differences represented the magnitude of budget reductions, and were compared to the amount of Plus 2 savings transferred to the General Fund from the CSR Fund for each year. We also compared per-pupil revenues to instructional costs for fiscal years 2008 and 2009 to fiscal years 2014 and 2015.

For tests involving samples, we used non-statistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that non-statistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report.

Our audit work was conducted from August 2015 to September 2016. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Superintendent of Public Instruction. On November 4, 2016, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C which begins on page 30. We also provided the Superintendent of each district a copy of the preliminary report sections applicable to their district and the opportunity to discuss them.

Contributors to this report included:

Debra Clark, CPA  
Deputy Legislative Auditor

Rick Neil, CPA  
Audit Supervisor

Eugene Allara, CPA  
Deputy Legislative Auditor

# Appendix C

## Response From the Department of Education

**BRIAN SANDOVAL**  
*Governor*

**STEVE CANAVERO, Ph.D.**  
*Superintendent  
of Public Instruction*

STATE OF NEVADA



**DEPARTMENT OF EDUCATION**  
700 E. Fifth Street  
Carson City, Nevada 89701-5096  
(775) 687 - 9200 · Fax: (775) 687 - 9101  
<http://www.doe.nv.gov>

**SOUTHERN NEVADA OFFICE**  
9890 S. Maryland Parkway, Suite 221  
Las Vegas, Nevada 89183  
(702) 486-6458  
Fax: (702)486-6450  
[www.doe.nv.gov/Educator\\_Licensure](http://www.doe.nv.gov/Educator_Licensure)

November 22, 2016

Rocky Cooper, CPA  
Legislative Auditor  
Nevada Legislative Counsel Bureau  
401 South Carson Street  
Carson City, NV 89701-4747

Dear Mr. Cooper:

I have had the opportunity to review the Legislative Counsel Bureau's draft 2016 Audit Report completed for the Department of Education. Based upon my review of the findings, I accept the two recommendations related to the State's class-size reduction program.

The department will be implementing district wide CSR monitoring while retaining the school level monitoring as well as developing a procedure to detect and request unused CSR funds.

On behalf of the Department, I would like to thank you and your staff for their dedicated work and professionalism through this process. Further the Department very much appreciated your guidance regarding CSR in general.

Please feel free to contact me if you have any questions or need clarification to this response.

Sincerely,

*Roger M Rahming*

Roger M. Rahming  
Deputy Superintendent  
Business and Support Services

Response to LCB 2016 Audit  
Nevada Department of Education

Recommendation 1

*Increase the monitoring of each district's ratios, by CSR grade, on a district wide basis. Districts not meeting ratios on a districtwide basis should be requested to provide a plan of efforts that will be made to meet target class-size ratios.*

Response

The Department is in the process of adding district wide CSR ratios to its reporting methodology, and will work to develop a policy and procedure to request an action plan from the district to meet their class-size target at a district level.

Recommendation 2

*Develop procedures to detect and request unused CSR funds to be returned by school districts to the State General Fund, including enhanced review of districts' annual reporting of revenues and expenditures required under state law*

Response

The Department will develop a process to request unused CSR funds. A procedure for heightened review of the 387.303 will also be developed to detect unused CSR funds at the district level.

## Department of Education's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Increase the monitoring of each district's ratios, by CSR grade, on a districtwide basis. Districts not meeting ratios on a districtwide basis should be requested to provide a plan of efforts that will be made to meet target class-size ratios.....	<u>    X    </u>	<u>          </u>
2. Develop procedures to detect and request unused CSR funds to be returned by school districts to the State General Fund, including enhanced review of districts' annual reporting of revenues and expenditures required under state law .....	<u>    X    </u>	<u>          </u>
TOTALS	<u>    2    </u>	<u>          </u>