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AUDIT REPORT

Portland Public Schools Administrative Spending

May 12, 2006

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Summary

Taxpayers and parents want to see as much of their community's educational resources directed to the classroom as possible, placing pressures on school districts to reduce expendit

Background

The effort to address PPS's funding shortfall for the coming school year has raised many questions about its spending practices from members of the community and the media. Of particular and perennial interest is the question of spending on administration. Public opinion often holds that the District is top heavy and that cutting spending on central administration would allow it to bridge the funding gap and direct more resources to the classroom.

The debate over this issue is often muddled by the fact that there are many different ways to calculate expenditures and define spending categories. Models and data are available for reporting from a number of different sources, including the Oregon Department of Education, the US Department of Education's National Center for Education Statistics, and Standard & Poor's SchoolMatters program, among others. Each source has a slightly different way of classifying and calculating expenditures. Depending on which funds, departments, and programs are included in a calculation, reports of spending can vary by hundreds of dollars per student.

The lack of general agreement on which measure of spending is best has prompted more attempts to develop a more accurate or useful way of measuring and reporting spending. This audit utilizes a number of these different methodologies to determine whether, regardless of the model used, PPS spending on administration is more or less than in comparable jurisdictions. Because it uses a number of different models from publicly available databases, the figures in one may not match those in another.

Definition of Administration

For the models used in this report, central administrative functions generally include the Superintendent's Office and Board of Education. They also include human resources, finance, payroll, research and evaluation, legal counsel, communications, and myriad other business services critical to the effective operation of any large organization. School-level administration (principals) is not included in this category.

The Oregon Department of Education (ODE) model calls this entire function "Central Support." The national-level models break administration out into subcategories, grouping the superintendent and board of education offices into "general administration" and other administrative functions into other categories. Varying levels of additional detail are provided. Please see the Appendix for a complete list of categories and associated programs used in each model.

Data for national comparisons were drawn from a number of sources: the National Center for Education Statistics' (NCES) Common Core of Data, Standard and Poor's SchoolMatters, and the Council of the Great City Schools 2004-05 budget survey of urban school districts. The NCES data are taken from the 2002-03 Local Education Agency (School District) Finance Survey and form the basis for the SchoolMatters data and many other reports. 2002-03 is the most current year available from NCES, one year before the influx of local income tax revenues to PPS. Expenditures in subsequent years would be likely be higher due to this increase in funds.

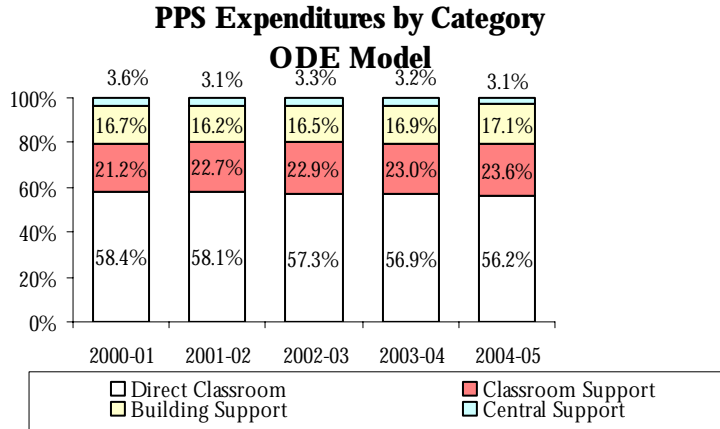
metropolitan region (Clackamas, Multnom

PPS spending per student was higher than the regional and large district averages in the Direct Classroom and Classroom Support categories (see Exhibit 2 below). The percent of operating expenditures in each category is shown in Exhibit 3 below.

PPS – 2000-01 through 2004-05

In addition to local and national comparisons, spending was analyzed for PPS over the past five years. Spending on Central Support was held at 3.3% or less of operating expenditures in each year after 2000-01. The percent of expenditures on Classroom Support rose slightly in each of the past five years while the percent on Direct Classroom fell slightly. See Exhibit 4 below.

Exhibit 4



Source: Oregon Department of Education's DBI

On a per student basis, slightly more flu

Instruction – all activities dealing directly with the in

For 2002-03, total spending was virtually the same for PPS and the Peer Average, with PPS spending \$20 more per student. Looking at administrative spending specifically, PPS spent \$156 per student more on Business and Central Support, such as fiscal, purchasing, warehousing, printing, planning, research, human resources, etc. However, it spent \$58 per student less on General Administration, such as board of education, and executive (superintendent) administration. As a percent of operating expenditures, it spent 6.3% versus 5.2% for the Peer Average on the combined central administration functions.

Looking at the three broad categories of spending per student, PPS spent \$92 more on Instruction, \$6 more on Support Services, and \$79 less on Other Non-Instructional Services such as food services. More detail of differences between PPS and the Peer Average can be seen in Exhibit 6 above.

National Peer Districts – SchoolMatters Core Spending

Another well-established resource for education expenditures is Standard & Poor’s SchoolMatters, whose purpose is to provide information to various decision makers, including district administrators and parents. For its financial information, SchoolMatters uses NCES data (see above), but presents them somewhat differently. According to SchoolMatters, their figures represent “Core Spending, which excludes expenditures that are less likely to directly support instruction (and that may lack comparability between school systems) such as expenditures for transportation, food services, and capital projects.” Please see Appendix column C for details on programs included in this model.

The same peer group as in the NCES analysis above was used for comparison. In 2002-03, total core spending was virtually the same between PPS and the Peer Average. On administration, PPS spent more per student in the “other expenditures” category, which appears to be the same as the Other (Business/Central) NCES uses. PPS spent less on General Administration.

Exhibit 7

**Spending at PPS and Peer Average,
Core Spending 2002-03
SchoolMatters (Standard and Poor’s) Model**

| | PPS | Peer Average (PPS Excluded) | PPS +\- |
|-------------------------------|--------------|--|-----------------|
| Instruction | \$4,736 | \$4,752 | -\$ (16) |
| Instructional Staff Support | \$377 | \$489 | -\$ (112) |
| Pupil Support | \$655 | \$454 | +\$201 |
| General Administration | \$52 | \$110 | -\$ (58) |
| School Administration | \$521 | \$485 | +\$36 |
| Operations and Maintenance | \$555 | \$747 | -\$ (192) |
| Other Expenditures | \$463 | \$306 | +\$157 |
| Total Core Spending | \$7,359 | \$7,342 | +\$17 |

Exhibit 8

**Spending at PPS and Peer Average, 2002-03
Percent of Expenditures on Compensation
SchoolMatters (Standard and Poor's) Model**

| | PPS | Peer Average (PPS Excluded) |
|--|------------|--|
| Salaries as % of Core Spending | 59.8% | 68.2% |
| Benefits as % of Core Spending | 25.9% | 18.2% |
| Total Compensation as % of Core Spending | 85.7% | 86.4% |

Source: Standard an056133dTF584 622 2ND, ORe272.819437q2515 excludes PPS)

Urban Average – Council of Great City Schools – The Council of the Great City Schools (CGCS), a national advocacy and research coalition of urban school districts, conducted a budget survey of its member districts in 2005. The survey asked respondents to provide budgeted expenditures information in a number of categories. These differ from the NCES categories in that they group more services under Instruction, such as counselors, librarians, professional development, textbooks and instructional technology; include food service and transportation under Student Services; and group fiscal services, other business services, and maintenance and facilities under Operations. Please see Appendix column D for details on programs included in this model.

The advantage of the CGCS model over the NCES model is that the data are more current by two years (budgeted 2004-05 versus actual 2002-03 available through NCES). Additionally, CGCS is able to provide an “Urban Average” using data from its member districts.

The drawbacks of this model center around its use of budgeted expenditures, which do not reflect actual spending over the course of the year. This is the only model used in the audit that does not rely on actuals. Also, different districts are likely to report spending di

Exhibit 10

**PPS Over/ (Under) US Urban Average
Budgeted Expenditures, 2004-05
Council of the Great City Schools Model**

| | PPS | Urban Average | PPS +/- |
|----------------------------------|----------------|--------------------------|-----------------|
| Classroom Instruction | \$4,088 | \$3,775 | +\$313 |
| Special Education | \$2,059 | \$1,114 | +\$945 |
| Books & Materials | \$120 | \$211 | -\$91 |
| Instructional Technology | \$17 | \$44 | -\$27 |
| Auxiliary Instructional Services | \$219 | \$359 | -\$141 |
| Curriculum & Staff Development | \$378 | \$284 | +\$94 |
| Other Instructional Expenditures | \$917 | \$164 | +\$753 |
| Instructional Subtotal | \$7,798 | \$5,951 | +\$1,844 |
| Health & Attendance | \$17 | \$186 | -\$169 |
| Transportation | \$350 | \$341 | +\$9 |
| Food Services (net costs) | - | \$64 | -\$64 |
| Student Activities (net costs) | \$50 | \$23 | +\$27 |
| Other Student Services | - | \$29 | -\$29 |
| Student Services Subtotal | \$418 | \$643 | -\$225 |
| Board of Education | \$36 | \$29 | +\$7 |
| Executive Administration | \$254 | | |

Exhibit 11

**PPS and Urban Average
Per Student and Percent of Budgeted Expenditures on Compensation
2004-05**

Council of the Great City Schools Model

| | PPS | Urban Average | PPS +\- (\$) |
|---------------------------|-------------------------|-------------------------|---------------|
| Salaries | \$4,923 47.1% | \$5,078 57.5% | -\$155 |
| Benefits | \$1,240 11.9% | \$826 9.3% | +\$414 |
| Retirement | \$789 7.5% | \$654 7.4% | +\$135 |
| Total Compensation | \$6,952 66.5% | \$6,557 74.2% | +\$395 |

Source: Council of the Great City Schools 2004-05 Budgeted Expenditures Survey

Recommendation

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The audit report recommends an annual analysis of administrative spending with similar comparisons to other Oregon districts, to prior years, and to peer national districts and we concur. This recommendation is all the more pertinent, as in a few weeks the Chalkboard Project will release its Open Books data. Based on ODE's DBI, Open Books provides a breakdown of operating expenses into five categories: teaching and learning, principal's office, buses, buildings and food, business services and technology, and central administration. We expect Open Books quickly will become the standard for school districts in the State of Oregon. Based on the most recent fiscal year

| Description | State Function Code | Oregon DBI | NCES | SchoolMatters | CGCS | Categories Aligned? |
|-----------------------------------|------------------------------------|-----------------------|-------------------|----------------------|-------------|--------------------------------|
| Speech Pathology and Audiology | 2150 | Classroom Support | Support Services: | | | |