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Opportunities to Better Manage  
the Costs of Special Education in  
Portland Public Schools

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A report by the District Performance Auditor  
August 2011

**PORTLAND PUBLIC SCHOOLS  
PORTLAND, OREGON**





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**Richard C. Tracy**  
District Performance Auditor

MEMORANDUM

**To:** Board of Education

**From:** Richard C. Tracy, District Performance Auditor

**Date:** August 2011

**Re:** **Special Education - Performance Audit**

Attached is my audit report on the financial management of Special Education at the Portland Public School district. I performed this audit in response to the 2010 Performance Audit Plan approved by the School Board.

I would like to thank the District management and staff for their assistance and cooperation in conducting this audit.

I look forward to meeting with you at upcoming Board and committee meetings to more fully discuss the report's findings and recommendations. Thank you for your ongoing support of performance auditing.

cc:  
Carole Smith  
Zeke Smith  
Jollee Patterson  
Carla Randall  
Robert Ford



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# SUMMARY

**P**ortland Public Schools (PPS) educates over 6400 students with disabilities, approximately 14 percent of the district's total 2009-10 enrollment of 46,596. Ranging in age from 5 to 21, these students receive specifically designed instruction and other supplemental services in accordance with established plans designed to address the student's individual academic, behavioral, and life-skill needs. Special education (SPED) is largely governed by landmark federal legislation in 1975 that established the legal entitlement to a free and appropriate public education for students with disabilities. This audit of SPED at PPS focuses on the financial management of the program and explores opportunities to better manage program costs.

## Background on SPED finances

**O**ver the past two decades, one of the major issues occupying school districts, federal and state governments, and academics has been the rising cost of special education services. Studies show that the special education population as a percent of the total student population has grown steadily and, in recent years, the number of students in higher cost disabilities such as autism has grown faster than lower cost categories such as speech and communications. Nationally, students in special education cost approximately twice as much as general education students. Although the federal government provides significant funding to support special education, it falls far short of the initial funding promise of 40 percent of total costs that was contained in the federal legislation establishing the legal requirement for services. Consequently, prior to the temporary ARRA stimulus funding, state and local governments have provided the largest share of funding for special education, approaching 85 percent on average nationally.

Compounding these financial trends is the fact that controlling the costs of special education is difficult. Federal legislation establishes both a legal mandate to provide appropriate services and a strict maintenance of effort rule that requires local district spending to remain at or above previous years' amounts. During times of shrinking state support for public education, special education funding is largely held-harmless while general education must absorb the loss of state funding.

## Financial management weaknesses at PPS

**M**y analysis of SPED financial management at PPS shows that the district has not managed program finances effectively. Over the past several years, weak controls have allowed growth in staffing levels without sufficient management review, federal funding was not always used wisely, and technical errors in the budget development for 2010-11 required modifications to the adopted budget. The district also missed opportunities to better manage the growth in special education costs by appropriately controlling the maintenance of effort spending base. In addition, the district used short-term increases in federal funding to staff on-going services causing a significant funding cliff in 2011-12 as federal recovery resources end. Finally, compliance problems due to the disproportionate referrals of African American male students for long-term discipline restricted the use of approximately \$3 million in federal funds the past two years and precluded the district from taking advantage of opportunities to lower maintenance of effort spending levels.

Beginning this past year, the district has made significant efforts to improve SPED financial management through the development of improved internal control systems. Specifically, the district created an independent budget analyst for the special education program, improved budget monitoring processes and financial management information, and established a new method for reviewing and approving new staff positions. These steps should help the district better plan and manage the ongoing operational costs of the special education program.

## Long-term financial sustainability is in question

**D**espite the recent improvements in financial management at PPS, the financial sustainability of the SPED program as currently delivered is in question. Demand for special education services is growing faster than state support and the program continues to be a significant draw on general fund resources. In 2009-10, we estimate that PPS spent about \$26 million on special education that otherwise would have been allocated to general education. Thirty-six percent of the PPS' total state and local funding for special education is provided from general fund resources compared to an average of 20 percent for other large Oregon districts. PPS also has a higher than average identification rate (14.7% vs 13.5%) and cost per student (\$11,175 vs \$8831) than other large Oregon districts. PPS also identifies a higher percentage of students for special education than Los Angeles, San Francisco, Oakland, and Seattle. While additional federal funding over the past three years helped mask the financial problems facing the district, continuing demands will place significant financial pressures on the



district to improve student achievement for all students while also meeting special education legal requirements.

## Strategies to better manage SPED costs

**B**ased on my review of SPED operations at PPS, there may be a number of strategies to better manage the costs of SPED and to improve the effectiveness of services to students with disabilities. The district is actively pursuing some of these ideas and others are still in the discussion phase. Some of the most promising strategies for improving the cost-effectiveness of special education are as follows:

More integration with general education - Recent studies demonstrate that more involvement of special education students in the general education environments can help improve their achievement and control the growth of costly separate, self-contained classrooms. While self-contained classes are needed for those students that cannot fully benefit from general education settings, PPS is making plans to more fully engage general education in serving special education students.

Increase early assessment and intervention - Earlier intervention with supplemental educational services may help provide more timely assistance for all students with additional needs and may also reduce inappropriate identification and placement in special education. PPS is in the early stages of initiating early assessment and intervention strategies.

Review and clarify policies and practices for determining special education eligibility - PPS schools may not consistently apply methods for determining if students are eligible for special education, especially for children that may have a specific learning disability. As a consequence, the potential exists for over-identification of students within this disability category and caseloads may increase faster than necessary.

Improve IT capacity and produce better management information - Information on individual student programs and services is not available in a form that facilitates team information sharing and communication, permits on-going monitoring and reporting on student goals, or allows assessment of the type and cost of services provided. The district is implementing new software next year that may address some of these problems.

Control one-on-one paraprofessional use - While special education enrollment increased by approximately 6 percent in the past five years, the staffing for paraprofessional staff grew by 36 percent over the same period. Paraprofessionals provide valuable assistance and support for disabled students in many situations but paraprofessionals

cannot provide the same quality of instruction as licensed teachers. Some research has shown that overuse of paraprofessionals may isolate special education students from general education academic experiences and increase dependency rather than improving student independence.

Search for transportation efficiencies - PPS Transportation spending per special education student on an IEP is approximately \$1683, higher than the average of \$957 for other large districts in Oregon. While PPS efforts this past year began to control transportation cost growth, further efficiencies may be possible by increasing the number of students on routed bus lines and controlling the use of cabs to transport students.

Reduce costs of substitutes - The costs to replace absent special education teachers and paraprofessionals has grown from \$1.4 million in 06-07 to over \$2.7 million in 2009-10, an 93 percent increase. More supervisory effort to control absence rates may produce savings that can be re-programmed for other SPED services.

Increase Medicaid reimbursement efforts - Significant opportunities exist to obtain additional revenue for certain special education costs (i.e. psychologists, communication therapists) that are eligible for reimbursement through the federal Medicaid program. Estimates of recovery potential exceed \$1 million annually.

## Recommendations

To improve special education financial management and to address opportunities to improve the cost effectiveness of special education at PPS, I make a number of recommendations on page 53 of this report. In brief, these recommendations call for a more deliberate and systematic management of the costs of special education to ensure PPS is using available resources in the most cost effective manner possible.

# INTRODUCTION

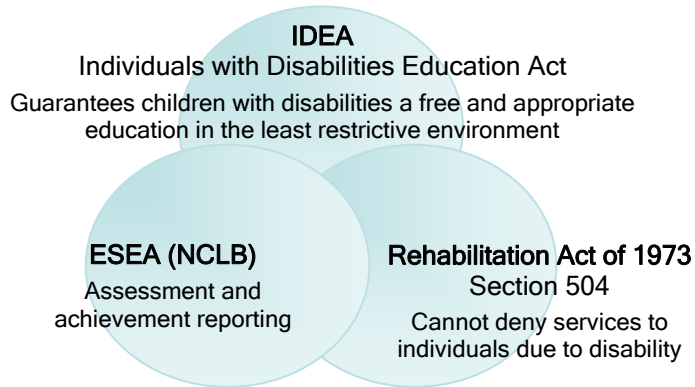
**S**pecial Education is one of the largest programs within the Portland Public School district - serving over 6400 students with disabilities at a total annual cost of approximately \$83 million in 2009-10. Special Education students receive a broad array of specifically designed instruction intended to address various disabilities that affect a child's educational performance. This audit focuses on the financial management of the SPED program to identify opportunities to improve planning, budgeting, and spending controls and to evaluate strategies to better manage the costs of special education.

## Special Education: Statutory and regulatory framework

**T**he *Education for All Handicapped Children Act* passed by the federal government in 1975 is the landmark legislation establishing special education in public schools throughout the country. The law requires public schools to provide students with disabilities with a free and appropriate public education in the least restrictive environment with a preference for including special education students in general education classrooms. Congress renamed the law the *Individuals with Disabilities Education Act* (IDEA) and reauthorized it several times, mostly recently in 2004.

IDEA governs how states, school districts, and other public agencies provide services to children with special needs. Infants and toddlers with disabilities (birth to age 2) receive early intervention services under Part C of IDEA and children and youth (ages 3 to 21) receive special education and other related services under Part B of IDEA. IDEA is implemented in coordination with two other federal laws: the Rehabilitation Act of 1973 (Section 504) and the Elementary and Secondary Childhood Education Act (formerly the No Child Left Behind Act - NCLB.) Section 504 precludes programs that receive Federal financial assistance from discriminating against children because of their disability. NCLB established performance and accountability standards with the goal of improving overall student and subgroup academic achievement.

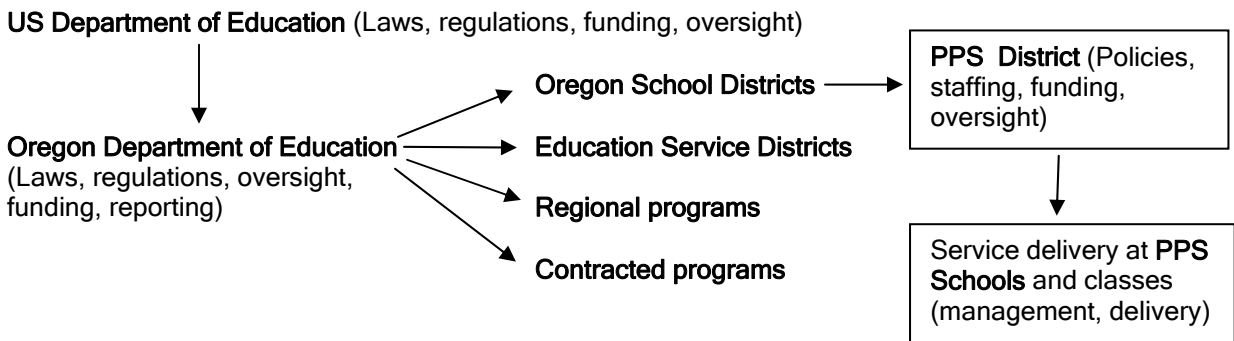
**Figure 1 Federal laws relevant to special education**



In order to be eligible for special education under IDEA, a child must have one of 13 recognized disabilities and that disability must affect the child’s educational performance.<sup>1</sup> Eligible students can receive a range of different services and educational accommodations including speech and language therapy, physical and occupational therapy, psychological services, counseling and assessment, and orientation and mobility services.

Oregon Revised Statutes and Administrative Rules establish policies and procedures for administering special education in accordance with federal legislation. The Oregon Department of Education is responsible for carrying out these regulations and ensuring that school districts and other programs comply with federal and state laws in providing special education services.

**Figure 2 Federal, State, and Local regulatory framework**



<sup>1</sup> Recognized disabilities include: Autism, Deaf/Blind, Deafness, Hearing Impaired, Mental retardation, Multiple disabilities, Orthopedic impairment, Serious emotional disturbance, Specific learning disability, Speech or language impairment, Traumatic brain injury, Visual impairment, and Other health impairment.

## Delivery of Special Education at PPS

**U**nder federal and state law, school districts must ensure that students with disabilities are identified and evaluated for eligibility, and if found eligible, provided specially designed instruction in accordance with an Individualized Education Program (IEP). The flowchart below illustrates the service delivery process from initial referral to exit from the program. The major steps in the delivery process include:

Initial referral and assessment - Students struggling with academics or behavior may be referred by teachers or parents to a school committee for an assessment. Based on an initial review of evidence, the committee may determine that the school may meet student with additional general education support services or can suggest that a more detailed assessment be made to determine if the student is eligible for special education.

Eligibility evaluation - If a student is referred for an evaluation to determine if a student has a disability that is affecting academic performance, a team is formed to perform a systematic evaluation. The team collects information on the student's ability and achievement through tests, observations, and other methods. A student's strengths and weaknesses are assessed from various perspectives to determine whether the child has a disability and the impact of the disability on educational performance. Parents generally participate in the evaluation but may request an independent evaluation if there is a disagreement on the results.

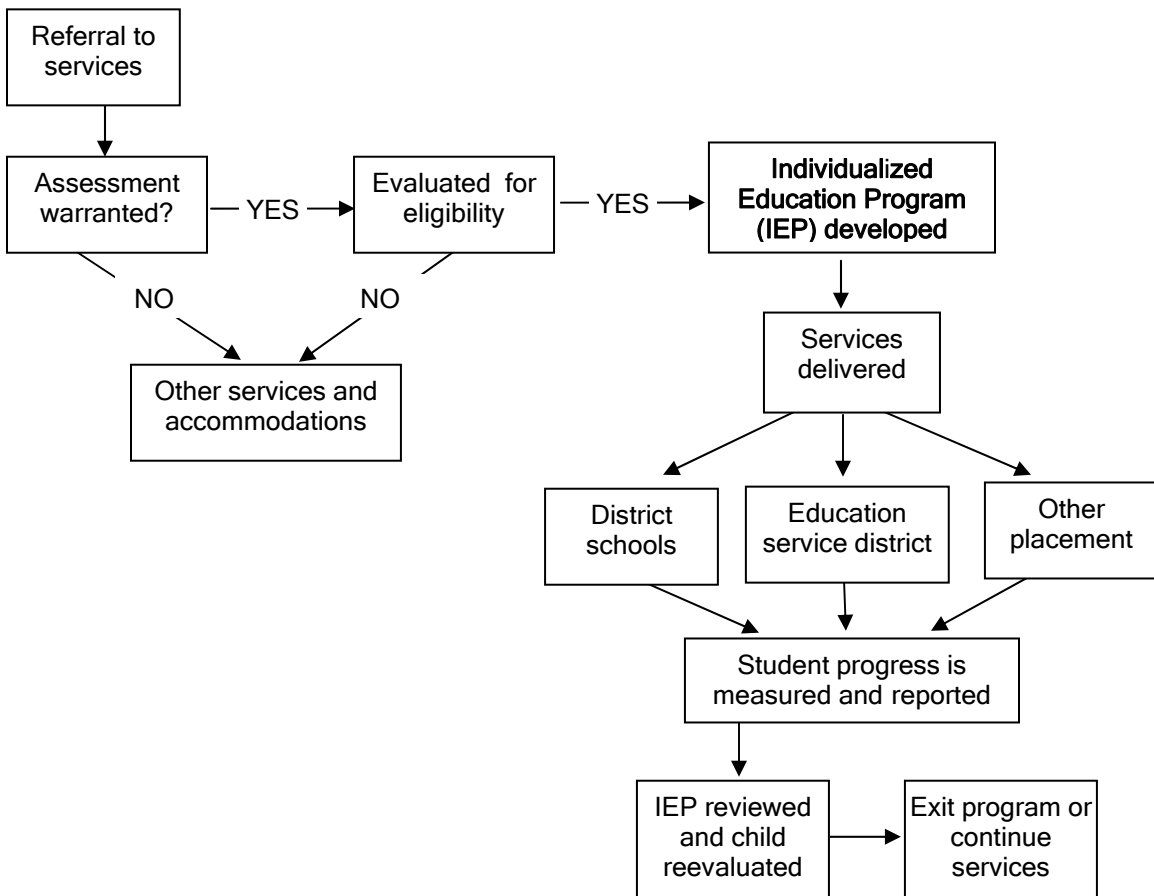
Individualized Education Program (IEP) - The IEP is a legal document that defines the specific educational and related services eligible students must receive to address their unique needs and to accomplish individual student goals and objectives. A team composed of parents, the classroom teacher, special educators, and a representative of the district who can authorize resources, prepares the IEP. The IEP document serves as a management and evaluation tool, and facilitates communication between school officials and parents. The IEP is also reviewed annually to assess progress toward goals and to adjust services as needed. Every three years the IEP for each student is reevaluated.

Placement and service delivery - Based on student IEPs, PPS provides a continuum of placements and services to students in the least restrictive environment. The great majority of students receive special education services in general education classrooms with additional services provided in a school-based learning center. Students with more severe academic and behavioral disabilities may receive service in self-contained classrooms, separate special schools, at home or hospital, or out of district.

Progress review and evaluation - PPS annually reviews student progress in achieving IEP goals and meeting grade level content standards. Depending on progress, students may exit special education, receive new accommodations or services, or receive a different placement. The student may also be reevaluated for eligibility.

Exit from special education - Students may leave the special education program when they no longer need specially designed instruction to make progress in the general education curriculum, graduate from high school, reach maximum age for eligibility, or when they leave the district or drop out of school.

**Figure 3 Special Education Process for referral, assessment, eligibility determination, placement, and exit**



Source: Adapted from PPS Special Education Policies and Procedures

## CONTINUUM OF PLACEMENT

Based on their IEP, special education students are placed in various learning environments depending on their specific disability and the least restrictive environment which will best meet their academic, behavioral, and life-skills needs. Beginning in FY2010-11, PPS initiated a new Continuum of Placement Options based on recommendations that emerged from a year-long stakeholder's review of special education services.<sup>2</sup> The new continuum of placement system established self-contained special classes in each geographic area of the city to cover all grade levels at a school so that students would not have to move to new schools when they changed grades. The Special Education department also established additional types of classrooms with clearer placement criteria tied to specific student needs. The new Continuum of Placement Options include the following major categories of placement:

- General Education with Special Education Services provided in regular class or in a Learning Center (Also provided at other school choice options such as Charter Schools and Alternative Schools)
- Focus Class: Intensive Skills Center - Functional
- Focus Class: Intensive Skills Center - Academic
- Focus Class: Behavior Classroom
- Focus Class: Behavior Classroom - Fragile
- Focus Class: Communication Behavior Classroom - Academic
- Focus Class: Communication Behavior Classroom - Functional
- Special School: Pioneer Special School Programs
- Special School: Community Transition Program (age 18-21)

These major categories of placement are described below.

Regular Classrooms and Learning Centers. As shown in the table below, in 2009-10, approximately 95 percent of special education students receive IEP services at regular elementary, middle, and high schools. Almost three-quarters of special education students spend at least 80% of their time in regular classes, 11 percent spend between 40 - 79% of the time in regular classes, and 12 percent spend less than 40% in regular classes. When not participating in regular general education classes, most special

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<sup>2</sup> Portland Public Schools: Special Education Review March 2010

education students receive additional instruction in “learning centers” that are located at each school. Other students receive only speech related services. In addition, some students with more severe disabilities receive instruction in special self-contained classes located at various schools around the district.

**Figure 4 Special Education population by placement**

	'05-06	'06-07	'07-08	'08-09	'09-10	'09-10 % of total	change from '05-06
Regular class 80%+	4,505	4,462	4,485	4,537	4,660	73%	3%
Regular class 40-79%	699	701	711	609	685	11%	-2%
Regular class <40%	759	684	705	730	746	12%	-2%
Separate school	204	239	246	265	234	4%	15%
Residential facility	7	3	7	4	7	<1%	0%
Homebound/hospital	17	1	6	12	11	<1%	-35%
Private school	53	56	34	36	29	0.5%	-45%
Home-schooled	0	11	5	12	11	<1%	-
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>100%</b>	<b>2%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

Self-Contained or Focus Classrooms. PPS operated 79 self-contained classrooms in 2010-11. These classes were offered throughout the district at certain schools to serve special education students from Kindergarten through high school. As shown below, 30 Behavior and Behavior Fragile classes were located at 22 schools and served 316 students. Fifteen Communication Behavior classes both Academic and Fragile were located at 12 schools and served 174 students. In addition, 34 Intensive Skill classes (Functional and Academic) were held at 24 schools and served 382 students. As shown, the number of self-contained classes increased from 2008-09 to 2010-11 by 6, serving 126 more special education students. Independent Living classes were included in Intensive Life Skills classes in 2010-11.



**Figure 5 SPED population in self-contained classes, by placement**

	'09-10	'10-11
<b>BEHAVIORAL</b>		
Students	275	316
Classes	28	30
Schools	22	22
Average class size	9.8	10.5
<b>COMMUNICATION-BEHAVIORAL</b>		
Students	108	174
Classes	11	15
Schools	9	12
Average class size	9.8	11.6
<b>LIFE/INTENSIVE SKILLS</b>		
Students	339	382
Classes	34	34
Schools	25	24
Average class size	10	11.2
<b>INDEPENDENT LIVING*</b>		
Students	24	-
Classes	2	-
Schools	2	-
Average class size	12	-

Source: Auditor analysis of SPED program data. \* Included in Life/Intensive in 2010-11

Special Schools. PPS operates several types of special schools for students that have various specific needs. Pioneer School programs are for students with significant ongoing social and emotional skill deficits that require more intensive supports than can be provided in a regular school setting. In FY2010-11, Pioneer programs included therapeutic classrooms, intensive behavior classrooms, functional intensive skill centers, and day treatment programs. Over 140 students attended Pioneer programs in 2010-11. In addition, PPS served approximately 170 students ages 18 to 21 that have graduated from high school with a GED or modified diploma at a Community Transition program that helps students transition to life after high school. PPS also provides an interim classroom for students that have been removed from school for disciplinary problems. Finally, several alternative schools, private schools, regional service districts, and home/hospital placements also serve students with disabilities.

## Special education enrollment and achievement trends

The number of students enrolled in special education has increased slightly over the past five years, growing from 6,244 in 2005-06 to an estimated 6,523 in 2010-11, a 4 percent increase. As a percent of total PPS enrollment, the proportion of students identified as disabled has ranged from 13 to 14 percent. Special education enrollment has started to increase in 2009-10 and 2010-11, mirroring increases in total district enrollment.

**Figure 6 PPS Special Education and total enrollment: 2005-06 to 2010-11**

	'05-06	'06-07	'07-08	'08-09	'09-10	est. '10-11
SPED Child Count	6,244	6,157	6,199	6,205	6,383	6,523
change from prior year	168	-87	42	6	178	140
% change from prior year	3%	-1%	1%	<1%	3%	2%
PPS fall enrollment	47,008	46,348	46,088	46,046	46,596	46,803
change from prior year	-648	-660	-260	-42	550	207
% change from prior year	-1%	-1%	-1%	-1%	1%	0%
<b>SPED % of total enrollment</b>	<b>13%</b>	<b>13%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

The percent of special education students by grade level has remained relatively constant over the past five years. Approximately 47 percent of disabled students are in elementary school, 25 percent are in middle school, and 28 percent are in high school. However, in 2009-10, there are fewer special education students in high school and more in middle school.

**Figure 7 PPS Special Education enrollment by grade level: 2005-06 to 2009-10**

	'05-06	'06-07	'07-08	'08-09	'09-10	'09-10 % of total	change from '05-06
Elementary	2,939	2,900	2,911	2,957	3,006	48%	2%
Middle	1,535	1,510	1,553	1,521	1,829	24%	19%
High	1,770	1,747	1,735	1,727	1,548	28%	-12%
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>100%</b>	<b>2%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

On average, there are two times as many male students identified as needing special education than female. As shown, the number of male students at PPS needing special education has grown slightly over five years, increasing 6 percent from 2005-06 to 2009-10. The number and percent of female special education students over this same period has declined about 4 percent.

**Figure 8 PPS Special Education population by gender: 2005-06 to 2009-10**

	'05-06	'06-07	'07-08	'08-09	'09-10	'09-10 % of total	change from '05-06
Female	2,163	2,132	2,121	2,078	2,074	32%	-4%
Male	4,081	4,025	4,078	4,127	4,309	68%	6%
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>100%</b>	<b>2%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

White students comprise the largest segment of special education students by race - 56 percent of the total special education population in 2009-10. African American students represent the second largest segment at 20 percent followed by Hispanic at 15 percent, Asian/Pacific Islander at 7 percent and Native American at 3 percent. Over the past five years, the number of Hispanic and Asian/Pacific Islander students in special education has increased by 28 percent and 25 percent respectively, while the number of African American and White students has decline by 6 percent and 1 percent respectively.

**Figure 9 PPS Special Education population by race: 2005-06 to 2009-10**

	'05-06	'06-07	'07-08	'08-09	'09-10	'09-10 % of total	change from '05-06
Asian/Pacific Islander	341	355	374	381	427	7%	25%
African American	1,336	1,291	1,272	1,250	1,255	20%	-6%
Hispanic	728	800	829	872	933	15%	28%
Native American	191	197	193	178	168	3%	-12%
White	3,648	3,514	3,531	3,524	3,600	56%	-1%
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>100%</b>	<b>2%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

The most frequently occurring disability among PPS special education students is *Specific Learning Disability*, a general category of disability related to student performance difficulties in reading, mathematics, listening, written or oral expression, or listening comprehension. Approximately 30 percent of special education students have this disability. The second and third largest categories of disability at PPS are *Communication Disorder* (Speech/Language) and *Other Health Impaired* (predominantly students with ADD/ADHD disorders), at 25 percent and 16 percent respectively. Students with *Autism Spectrum Disorder* (11%) and *Emotional Disturbance* (9%) represent the fourth and fifth most frequently occurring disability at PPS.

Over the past five years, excluding those disabilities with less than 100 students, the number and percent of students with *Autism Spectrum Disorder* has increased by 124 students or 45 percent, the highest percentage increase. Students with *Other Health Impairment* and *Emotional Disturbance* have both increased by 26 percent. Other disability categories declined, *Specific Learning Disability* by 16 percent and *Mental Retardation* by 30 percent. Students with *Vision and Hearing Impairments* have also increased.

**Figure 10 PPS Special Education population by primary disability: 2005-06 to 2009-10**

	'05-06	'06-07	'07-08	'08-09	'09-10	'09-10 % of total	change from '05-06
Autism	500	552	594	665	724	11%	45%
Deaf-blindness	1	1	3	3	3	0%	200%
Communication disorder	1,598	1,565	1,572	1,539	1,607	25%	<1%
Emotional disturbance	433	426	454	495	546	9%	26%
Hearing impairment	68	69	90	84	100	2%	47%
Mental retardation	383	366	313	281	268	4%	-30%
Other health impaired	825	856	938	1,042	1,042	16%	26%
Orthopedic impairment	91	103	93	100	88	1%	-3%
Specific learning disability	2,293	2,164	2,061	1,915	1,932	30%	-16%
Traumatic brain injury	30	28	18	16	13	<1%	-57%
Vision impairment	22	27	63	65	60	<1%	173%
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>100%</b>	<b>2%</b>
<b>SLD + OHI</b>	<b>3,118</b>	<b>3,020</b>	<b>2,999</b>	<b>2,957</b>	<b>2,974</b>	<b>47%</b>	<b>-5%</b>

Source: Auditor analysis of Multi-Year Database, excluding students in long-term care and treatment

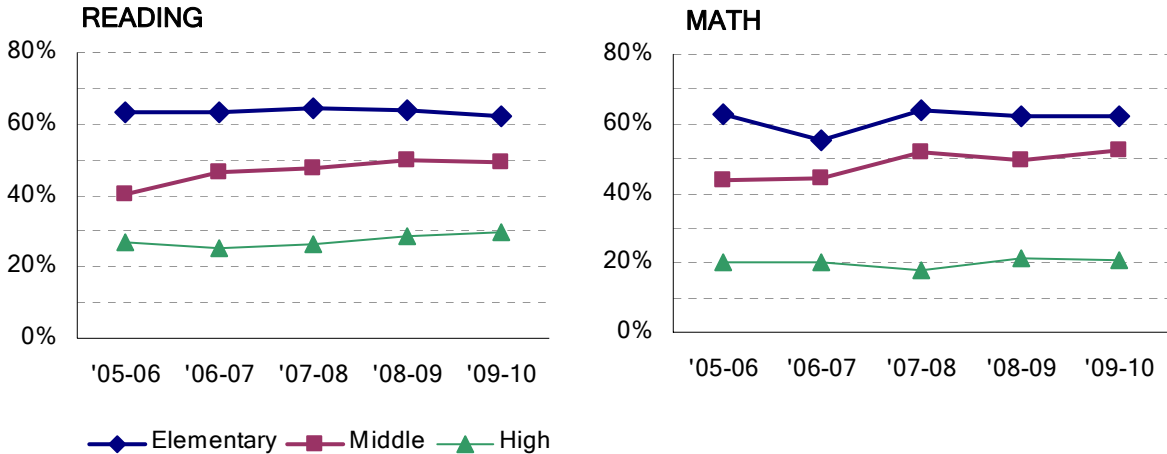
## STUDENT ACHIEVEMENT

Over the past five years, PPS middle school students with disabilities have performed better on statewide achievement tests than students in elementary grades or high school. As shown below, the percent of special education students in middle school that met or exceeded Reading standards increased from 40.5 percent in 2005-06 to 49.1 percent in 2009-10, a 9 point increase. The percent of middle school special education students meeting or exceeding Math standards also increase by 9 points from 43.5 percent to 52.4 percent.

Elementary special education students remained largely unchanged - 61.9 percent met or exceeded Reading standards in 2009-10 compared to 63.1 percent in 2005-06. Similarly, the percent of elementary special education students meeting Math standards remained close to 62 percent over the five year period. High school special education

students improved slightly more than elementary school students - 29.4 percent met or exceeded Reading standards in 2009-10 compared to 26.6 percent four years earlier. However, but Math performance was relatively flat - 20.2 percent meeting or exceeding versus 21 percent four years earlier.

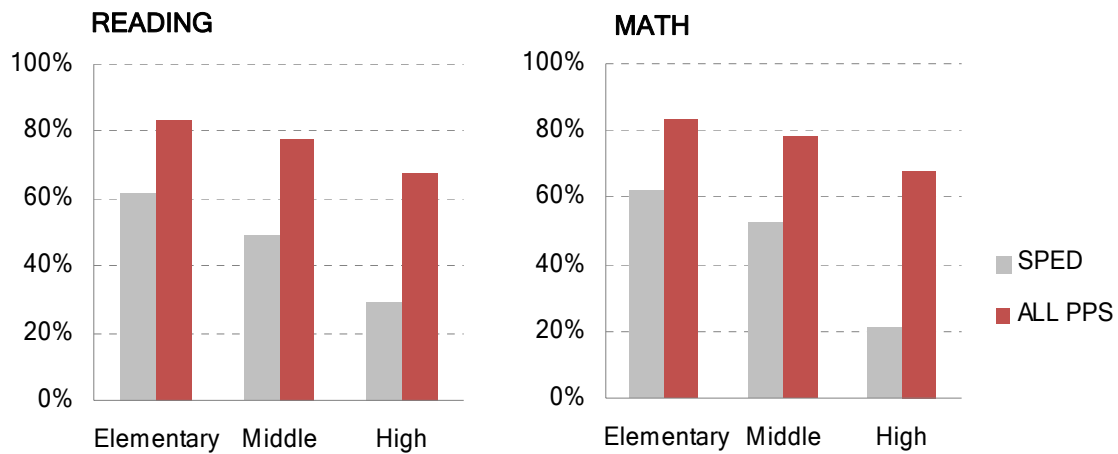
**Figure 11 Percent PPS Special Education students meeting or exceeding standards: 2005-06 to 2009-10**



Source: Auditor analysis of AYP Reports

However, there is a gap between special education students and all PPS students, especially at the higher grades. As shown below, when compared to the percent of all students that meet Reading and Math standards, the gap for special education students increases as the student progresses in grade level. While a lower percent of students in the district overall meet standard as they move from elementary and then to middle school and high school, the gap widens faster for students in special education. For example, the point difference between the percent of elementary special education students meeting or exceeding Reading standards and the percent of all elementary students meeting Reading standards is 21.7 percent. This point gap rises to 28.8 percent in middle school and 38.3 percent in high school. The trend is similar for Math achievement.

Figure 12 SPED students compared to all PPS students meeting standards: 2009-10



Source: Auditor analysis of AYP Reports

Based on exit data for 2008-09, disabled students leave the PPS special education program for a variety of reasons. As shown below, the most common reason for exiting the program is “Moved or Continuing in Another Educational Program” at 41 percent of those leaving. Thirty-two percent of the student leave to return to the general education program, 16 percent graduate with a regular or modified diploma, 8 percent drop out of school, and 2 percent leave with a certificate of completion. Students with *Speech and Communication Disorders* are most likely to return to general education classrooms - 78 percent. Students with *Emotional Disturbance* disability are most likely to drop out of school. Students with *Specific Learning Disability* are most likely to graduate with a regular diploma.

**Figure 13 Primary disability and reason for exit: 2008-09**

	Regular diploma	Modified diploma	Cert. of Compl.	Gen'l ed	Max. age	Moved	Dropped out	TOTAL
Autism	9	9	0	13	2	39	3	75
Deaf-blindness								
Communication disorder	7	1	0	238	0	56	2	304
Emotional disturbance	15	10	7	6	1	126	30	195
Hearing impairment	3	1	1	4	0	3	1	13
Mental retardation	1	12	1	1	2	15	2	34
Other health impaired	28	6	9	34	1	112	21	211
Orthopedic impairment	0	2	0	1	0	5	0	8
Specific learning disability	64	20	8	88	2	124	37	343
Traumatic brain injury	0	1	0	0	0	0	1	2
Vision impairment	1	0	0	0	0	2	0	3
<b>TOTAL</b>	<b>128</b>	<b>62</b>	<b>26</b>	<b>385</b>	<b>8</b>	<b>482</b>	<b>97</b>	<b>1,188</b>

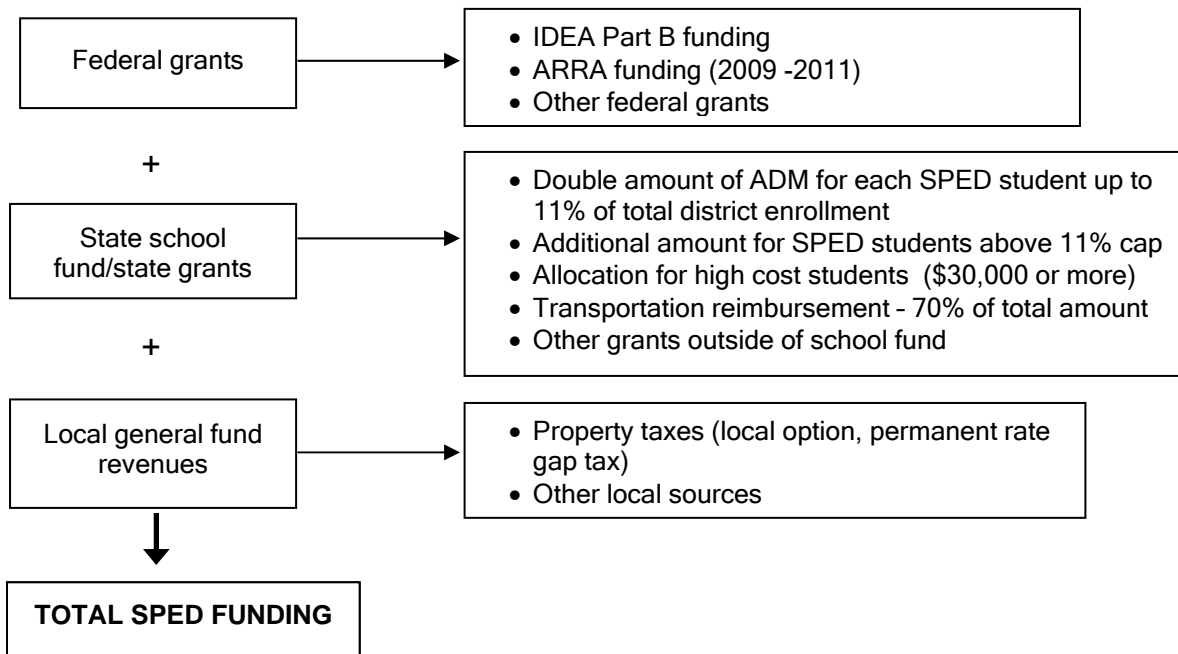
Source: Auditor analysis of Exit Database for 2008-09.



## Special Education funding and maintenance of effort

Special Education receives funding support from several sources. As shown in the graphic below, the primary sources are Federal grants, State school fund support, and local general fund resources.

Figure 14 Special Education funding sources



Source: PPS Budget Document and ODE Special Education Finance Q and A

Federal IDEA and American Recovery and Reinvestment Act (ARRA) funding that flows through the Oregon Department of Education to the district may be used for any special education purpose including staffing, materials, equipment, related services, and other supplementary aids and services to students with disabilities. IDEA also permits the use of up to 15 percent of federal funding for early intervening services for children not yet identified as disabled but who need additional academic and behavior support to succeed.

The State School Fund provides districts with twice the amount of funding per student for students with disabilities on IEPs. This “double funding” is capped at 11 percent of the average daily enrollment (ADM). If special education enrollment is higher than 11 percent of total district enrollment, the state school fund provides an additional amount for these students but not a full share of ADM. ODE officials estimate this to be

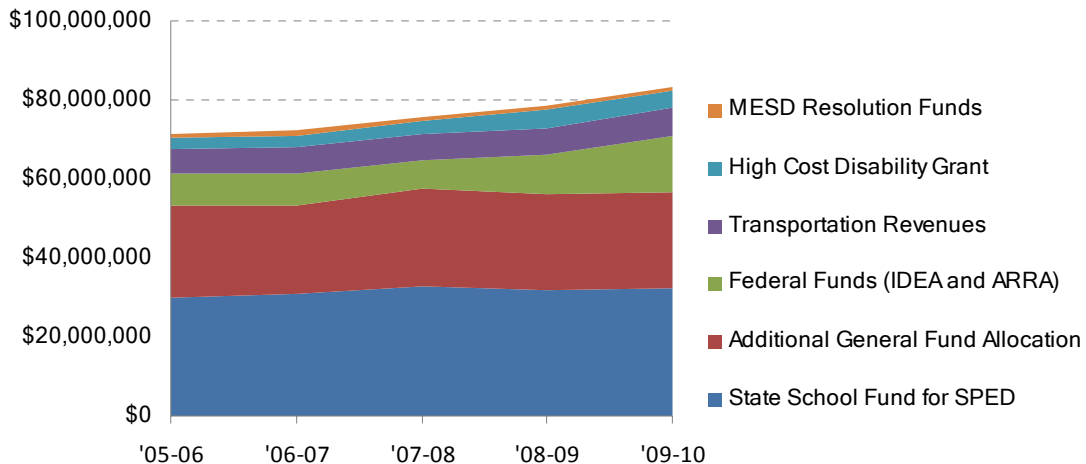
about 50 percent of a full an ADM share. In addition, the state provides districts with an additional allocation for students whose special education services cost \$30,000 or more per year. This high cost disability allocation covers only a portion of the actual costs incurred for these services, about 16 percent.

The State also reimburses districts for 70 percent of all Transportation costs for students including special education students. In addition, the State may also provide various grants to districts for special purposes including supporting IT enhancements and pilot improvement programs.

School districts may also supplement dedicated federal and state funding with additional state and local general fund revenues if actual costs exceed available resources earmarked specifically for special education. At PPS, these resources are derived from local property taxes and other local sources.

As the graph below indicates, total Special Education expenditures have grown from about \$71 million to \$83 million over the last five years. Dedicated special education revenues distributed through the State School fund provide the primary source of funding, followed by additional general funds allocated by the district to cover total program costs. Increased revenues during this period have come primarily from increases in IDEA/ARRA funds.

**Figure 15 Special Education spending by funding source: 2005-06 to 2009-10**



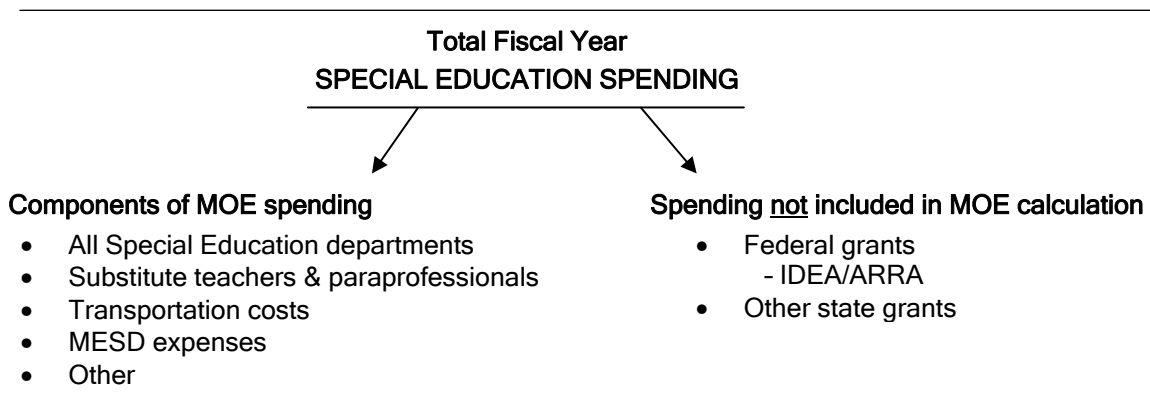
Source: Compiled by Auditor from State School Fund and High Cost Disability Grant reports, PPS Grant Accounting Maintenance of Effort reports, and Budget Office reports on actual expenditures. Additional general fund allocation computed from total expenditures, less special education revenues.

## LOCAL DISTRICT MAINTENANCE OF EFFORT (MOE) REQUIREMENTS

Federal law does not allow local districts to use federal IDEA funds to supplant state and local funds committed to the same special education purposes. In brief, this requires school districts, at a minimum, to maintain the same level of spending effort for special education and related services each year. Maintenance effort can be met either by maintaining or increasing the total amount of local spending each year or by maintaining or increasing the spending per special education student. To ensure MOE rules are met, ODE requires annual MOE audits. The penalty for failure to meet MOE is repayment to ODE of the amount the district fell short of maintaining MOE from existing general or other funds.

The graphic below illustrates the components of spending that are included in the MOE calculation. As shown, MOE includes all Special Education department spending, transportation costs for special education students, the cost of substitutes to replace special education teachers and paraprofessionals, expenses for services provided by the Multnomah County Educational Services district, and other miscellaneous amounts.

**Figure 16 Maintenance of Effort spending**



Under federal and state law, local school districts may reduce the level of maintenance of level spending under various conditions:

- Departure of experienced special education or related service personnel
- Decrease in the enrollment of students with disabilities
- Termination of the obligation to provide especially costly services to a particular student

- Termination of costly long-term expenditures such as acquisition of equipment or construction of school facilities
- Assumption of high costs by the state

In any fiscal year in which the federal IDEA allocation exceeds the amount received in the previous year, the local school district may also reduce MOE levels by 50 percent of the excess amount received. That is, if federal funding in one year exceeded the previous year by \$100, the district could reduce its MOE requirement by \$50. However, districts cannot apply this reduction if the State determines that the local district is not meeting the requirements of the IDEA law, including targets in the state's performance plan.

## Audit objectives, scope, and methods

This audit had one primary objective and two sub-objectives:

- To evaluate the financial management of PPS's Special Education program in order to
  - 1) identify opportunities to improve SPED planning, budgeting, and financial controls, and
  - 2) evaluate strategies to better manage the costs of special education.

To address these objectives, we interviewed SPED managers and administrators, school principals, PPS Budget and Finance Office officials, and the Chief Academic Officer. We also met with officials from the Oregon Department of Education, school district officials from Tigard-Tualatin and Salem Keizer, and a representative from Portland State University School of Education. We reviewed federal and state laws and regulations governing special education, PPS policies and procedures for delivering special education, and various internal studies and audits of special education at PPS. We also reviewed academic research and professional publications on the delivery of special education services. We had several conversations with researchers and consultants in the field of special education. We also met with a group of parents with children in the PPS SPED program.

We analyzed the following data on PPS service delivery: SPED Child Count records extracted from the ODE Multi-Year database (2005-6 to 2009-10), PPS High Cost database (2008-9), PPS Child Find data on students evaluated for eligibility (2009-10), PPS SPED Exit data (2009-10). Our estimate of the 2010-11 PPS Child Count was based on PPS' submitted data and not final ODE counts. We also obtained and reviewed staffing and financial data from PPS budgeting and accounting records, the ODE Office of Student Learning and Partnerships, and ODE's State School Fund and High Cost Disability Grant Worksheets. Our methodology for estimating the general fund subsidy of special education costs was developed by ODE's School Finance Director. Achievement data was compiled from on-line AYP reports for PPS. We compared PPS to 11 Peer Districts in Oregon with the largest special education populations. Finally, we obtained data on substitutes from PPS Human Resources and data on transportation from the PPS Transportation office.

This audit focused primarily on the financial management of special education at PPS. Our analyses of costs and services focused on school-aged students (5-21), and generally excluded students in long-term care and treatment. Our audit scope did not include review of services, costs or financial management of the DART or Columbia

Regional programs. Although we reviewed controls over the planning, monitoring, and reporting of SPED finances, we did not evaluate compliance with federal or state requirements regarding the delivery of special education. We conducted a limited review of the processes for identifying students for special education but we did not perform sufficient work to reach conclusions on the effectiveness or efficiency of these procedures. We also did not review the effectiveness of SPED services in achieving IEP goals, improving student achievement, or in reducing the achievement gap between general education and special education students.

We believe the district could benefit from two additional performance audits on the following topics:

- Design and Implementation of Special Education Referral, Eligibility, and Exit Processes
- Performance in Delivering IEP Services and Achieving IEP Goals

This audit was performed in accordance with the 2010 Audit Plan approved by the PPS School Board. Fieldwork was performed from October 2010 through March 2011. Report writing and processing was conducted from April 2011 through June 2011. I was assisted on this audit by an independent performance audit consultant, Kathryn Nichols.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. I have implemented an internal quality control process to ensure standards are met but have not undergone an external quality review as required by standards.

# AUDIT RESULTS

Over the past several years, the financial management of Special Education has not been effective. Staffing levels were not adequately controlled, planning and budgeting practices were weak, and federal funds were not used wisely. In addition, the special education maintenance of effort spending base increased by almost 12 percent, committing the district to a higher on-going general fund spending requirement. Due to sanctions related to racially disproportionate discipline referrals, the district also missed opportunities to use funds for program operations and to reduce general fund maintenance of effort spending levels. The program is faced with less revenue to support existing requirements in the coming year and staff reductions will be necessary.

The district has addressed some of the weaknesses in financial management by implementing a number of new controls and processes. Most significantly, a dedicated budget analyst for special education is now housed in the Budget Office rather than in the Special Education department. In addition, the creation and hiring of new special education staff positions must now undergo more review and approval from higher level management. Although additional information has improved planning and monitoring this year, special education managers and elected officials could still benefit from more comprehensive and useful management information on the special education program.

While these actions will help improve the financial management of Special Education, the program as a whole may not be financially sustainable. Increasing costs and declining state and federal support will place significant stress on the district to improve achievement for all students while also addressing special education mandates. PPS subsidizes special education with general education resources at a much higher rate than other large Oregon school districts. Actions are needed over the next several years to use available funding in a more cost effective manner. Various strategies exist to control special education costs and improve services to disabled students.

## Special Education program financial management weaknesses

Our review of the financial management of the Special Education program revealed a number of weaknesses. Discussions with finance and program officials, and analysis of budget and financial documents revealed the following problem areas.

### LACK OF POSITION CONTROL

As shown in the table below, Special Education staffing has increased by 22.5 percent over the past four years. The largest increases were for additional paraprofessionals, SPED teachers, and speech/language pathologists growing 36.0, 21.9, and 12.1 percent, respectively. During this same period, special education enrollment increased from 6,157 to 6,393, a 3.7 percent increase. Staffing levels began to decline in 2010-11.

**Figure 17 Special Education staffing: 2006-07 to 2009-10**

	'06-07	'07-08	'08-09	'09-10	change from '06-07	percent of total staff	'10-11(est)
Administration (non-school based)	47	40	45	51	8.5%	4.9%	38
SPED teachers	256	252	285	287	12.1%	27.7%	278
Speech/Language	64	69	80	78	21.9%	7.5%	83
Paraprofessionals	331	350	394	450	36.0%	43.5%	404
School psychologists	44	47	48	48	9.1%	4.6%	51
Other	103	107	122	121	17.5%	11.7%	106
<b>Total SPED staff</b>	<b>845</b>	<b>865</b>	<b>974</b>	<b>1,035</b>	<b>22.5%</b>	<b>100%</b>	<b>960</b>
<b>Students on IEPs</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>3.7%</b>	<i>na</i>	<b>6,523</b>

Sources: Staffing data compiled by Auditor from handouts presented to FAOC in November 2009. Data for 2010-11 obtained from Budget Office and reflects Spring Amended Budget. IEP count compiled by the Auditor from Special Education Multi-Year Database and excludes students in long-term care and treatment. IEP count for 2010-11 estimated from District's Child Count submission.

Our discussions with department and budget managers indicate that during this time period, controls over the creation and hiring of new positions were not working as



intended. The Special Education director had responsibility for creating new positions without sufficient oversight and approval from the Chief Academic Officer and the Budget Office. Decisions about staffing levels were not subject to adequate review to ensure positions were approved, funds were available, and long-term funding requirements were considered.

Beginning in late fall of 2010-11, new staffing allocation formulas and position control processes were implemented that required specific approval for the hiring of new positions. Special Education program now must receive approval from the Chief Academic Officer and from the Budget Office before creating new positions and hiring new staff.

### INADEQUATE PLANNING AND BUDGETING PRACTICES

During 2009 -10 the Special Education program was actively planning and developing the new “Continuum of Services” program design. Although this was a significant change in the delivery of special education services, we were unable to obtain any documents that provide a complete and clear analysis of the projected changes in classrooms or the potential impact of the changes on program costs. This change was also occurring at the same time that the district consolidated Special Education with the Student Services program to create Integrated Student Services (ISS) department.

Based on our discussion with budget analysts and program managers, these two events presented a significant challenge in obtaining accurate projections on staffing and program costs to help develop the 2010-11 budget. Compounding this challenge was turnover in critical financial analyst positions. According to budget managers, the uncertainty about staffing and resource requirements to address these program changes complicated the process of developing a reliable estimate on budget requirements for the Special Education program. A downward revision in available state resources in the late spring of 2010 also compromised the reliability of the consolidated ISS adopted 2010-11 budget.

A technical error in the budgeting process that overstated the amount of budget reductions required by Special Education in the adopted budget further complicated the budget process. This “under expenditure” created a \$3 million gap in the level needed to meet the legally required maintenance of effort spending base in 2010 -11. To ensure the district spent a sufficient amount to meet maintenance of effort spending targets, expenditures previously accounted for in federal grant accounts were accounted for in general fund accounts.

During the course of our audit work in 2010 -11, we had difficulty obtaining complete, timely, and consistent financial information. During much of the year, the budget was

under significant review and needed various revisions to ensure MOE targets were met. The district made a mid-year budget adjustment to reconcile actual and planned spending levels and to appropriately categorize expenses and revenues within general fund and grant fund accounts.

According to budget and special education program managers, many of the financial planning and budgeting problems experienced in the program over the past two years were caused by the lack of an experienced and independent budget analyst. Prior to 2010-11, the Special Education department employed its own analyst that reported to the department director but not to the PPS Budget Office. This separation from central budget office resulted in insufficient independent oversight to ensure planned spending was appropriate, reasonable, and controlled. The resignation of this analyst and the hiring of a temporary budget analyst unfamiliar with complex special education budgeting also contributed to errors and inconsistencies.

During the course of 2010-11, financial controls and management information gradually improved. The district assigned a dedicated analyst in the Budget Office and the Budget and Finance director became more integrally involved in the review and oversight of the special education financial management. Coordination between this analyst, the accounting department, and the special education department interim director also helped improve the quality, completeness, and timeliness of financial information needed to plan and develop the 2011-12 budget. According to the Special Education interim director and the Chief Financial Officer, financial information on the program has improved significantly, contributing to better program and budget decisions.

## USE OF FEDERAL FUNDS

Over the past five years, PPS has spent approximately \$49.5 million in federal funds from IDEA grants and IDEA ARRA grants. As shown in the table below, spending levels increased significantly for three years from 2008-09 through 2010-11 as a result of temporary additional federal funding from the American Recovery and Reinvestment Act (ARRA) of 2009, peaking at \$14 million in 2009-10. While school districts could spend the additional IDEA ARRA resources for the same purposes as existing IDEA grants, the US Department of Education emphasized that local districts should use the additional funds for one-time investments that could be sustained after the temporary funding expired. Recommended spending items included training, data and IT enhancements, assistive technology devices, and services for students in preschool and students entering the workforce.

However, according to PPS managers, the Special Education department spent ARRA resources primarily for on-going special education program operations, including

new teaching, paraprofessional, and other specialist positions. In the two year period from 2007-08 to 2009-10, special education staffing increased by over 150 positions. Finance records also show that during the past three years the Special Education department was using federal IDEA grant funding at a faster rate during the grant period than was prudent, creating cash-flow problems in the final months of the grant period. For example, in 2009-10 and 2010-11 the department spent an estimated 85 percent of the available grant during the first period of the grant carrying over only 15 percent for the next period.

**Figure 18 Special Education Federal Grant spending: 2006-07 to 2011-12**

	IDEA PPS SPED grants	ARRA-IDEA PPS SPED grants	TOTAL
2006-07	\$7,716,456		\$7,716,456
2007-08	\$7,105,977		\$7,105,977
2008-09	\$8,318,527	\$1,389,953	\$9,708,480
2009-10	\$9,626,317	\$4,474,596	\$14,100,913
2010-11 (budget)	\$8,400,000	\$2,500,000	\$10,900,000
2011-12 (forecast)	\$8,800,000	\$500,000	\$9,300,000

Source: PPS Finance

The use of one-time ARRA resources for on-going operational costs has had several negative impacts on the finances of special education. First, the expiration of ARRA funding has contributed to the need for staff reductions in the current and next budget year. Special Education reduced overall staffing by approximately 75 positions in 2010-11 and approximately 23 positions in 2011-12. While district general fund spending will meet maintenance of effort spending requirements, the program has less funding to support existing services due to the loss of short-term revenue from the ARRA expiration. The district must spend remaining ARRA resources by September 30, 2011.

In addition, the Special Education department missed an opportunity to use one-time ARRA resources to purchase new technology instead of adding additional staff. As discussed on page 43, current software systems do not adequately support the development of student IEPs nor provide sufficient information on the nature and costs of services provided to students under approved educational plans. The district could track progress in achieving IEP goals and better monitor the cost of IEP services with more complete information on the services provided under each IEP.

## INCREASE IN MAINTENANCE OF EFFORT SPENDING BASE

As discussed in the Introduction, school districts must maintain or increase state and local spending for special education each year. As shown in the table below, total special education maintenance of effort spending increased from \$64 million in 2006-07 to \$71 million in 2010-11, a 11 percent increase over a five year period. During this same period, the number of students on individual education plans increased by only 5.9 percent. The greatest increase in maintenance of effort spending occurred from 2006-07 to 2008-09, a period when the number of students on individual education plans was flat. We were unable to determine the specific factors contributing to maintenance of effort increases during this time-frame but the increase may be largely due to rapid increase in staffing costs.

**Figure 19 PPS Maintenance of Effort spending: 2006-07 to 2010-11**

	Total MOE expense	# of students on IEP
<b>2006-07</b>	\$63,941,086	6,157
<b>2007-08</b>	\$68,361,928	6,199
<b>2008-09</b>	\$69,685,688	6,205
<b>2009-10</b>	\$70,927,414	6,383
<b>2010-11 (est)</b>	\$71,000,000	6,523
<b>% change</b>	11%	5.9%

Source: PPS Finance MOE Expense Reports and PPS District Child Count data

As shown in the table below, the largest category of maintenance of effort spending is for Special Education department. Transportation and Substitute costs are the second and third largest maintenance of effort spending categories. While special education department costs increased by 10 percent over the past 5 years, Substitute expenses grew by 93 percent and Transportation expenses increased over 7 percent. Multnomah Educational Services District costs have remained relatively flat over the period. The largest year-to-year change was from 2006-07 to 2007-08 when maintenance of effort spending increased 6.9 percent, largely due to increased SPED department costs.

**Figure 20 Special Education MOE costs: 2006-07 to 2010-11**

(in millions)	'06-07	'07-08	'08-09	'09-10	'10-11*	change from '06-07
SPED Department	\$52.0	\$56.3	\$56.6	\$56.7	\$57.3	+10%
Transportation	9.1	9.2	9.8	10.7	9.7	+7%
Substitutes	1.4	1.8	2.1	2.4	2.7	+93%
Other	.1	-	-	.1	.1	<i>na</i>
MESD	1.3	1	1.1	1.1	1.2	-7%
<b>TOTAL</b>	<b>\$63.9</b>	<b>\$68.4</b>	<b>\$69.7</b>	<b>\$70.9</b>	<b>\$71.0</b>	<b>+11%</b>
change from prior year		6.9%	1.9%	1.7%	0%	

\* Estimate

Source: PPS Finance

In 2008-09 and 2009-10, PPS also missed a one-time opportunity to decrease the maintenance of effort spending base. In accordance with the 2004 federal IDEA reauthorization law, local school districts could reduce their general fund MOE commitment to special education by up to 50 percent of the increase in federal funding relative to the previous year. With the increase in IDEA ARRA funding, school districts had a window of opportunity to lower the general fund maintenance of effort spending commitment. For PPS this amounted to a potential MOE reduction of \$4.6 million on an on-going basis.

However, PPS was not able to take advantage of this provision because school districts wishing to pursue this feature of the law had to be meeting the requirements of IDEA before approval was given. During the period when MOE reduction was available, PPS was under state sanction for the disproportionate referral of male African-American special education students to long-term discipline. Consequently, PPS missed an opportunity to lower their maintenance of effort spending requirement.

Due to the state sanction related to the disproportionate referral of male African-American students for discipline, PPS was also required to reallocate 15 percent of its 2009-10 IDEA grant funds from on-going special education services to Coordinated Early Intervening Services (CEIS). In response to this sanction PPS created the Redirection Program to reduce overrepresentation of minority students in special education and in suspension/expulsion status. PPS was required to expend approximately \$3 million dollars on this program by September 2011.

## Financial sustainability of Special Education may be in question

In spite of recent improvements in financial controls, Special Education at Portland Public Schools may not be financially sustainable. State and federal support is not keeping pace with the growth in special education caseloads and the program as currently configured is a significant draw on PPS general fund resources available for general education. Compared to other large districts in Oregon, PPS identifies a higher percent of children for special education and spends more per student. As a percent of total enrollment, PPS also has more students in special education than other large urban school districts on the West Coast. In light of declining state and local government resources and increasingly costly services, PPS will face a significant challenge in providing both a free and appropriate education to special education students, and improving academic progress for all children in the district.

### CASELOAD GROWTH EXCEEDING STATE SUPPORT

Adjusted for inflation, PPS has less state funding support than it did five years ago but a higher caseload of special education students. As shown in the table below, while the number of students on individual education plans has increased by 5.9 percent since 2006-07, the state school funding per pupil adjusted for inflation has declined by 5.5 percent and total state support for special education has declined by 3.9 percent. While additional federal resources for a three-year period (2009 to 2011) helped address the growing service demand, expiration of the ARRA funding next year will challenge the district to provide current services on a continuing basis.

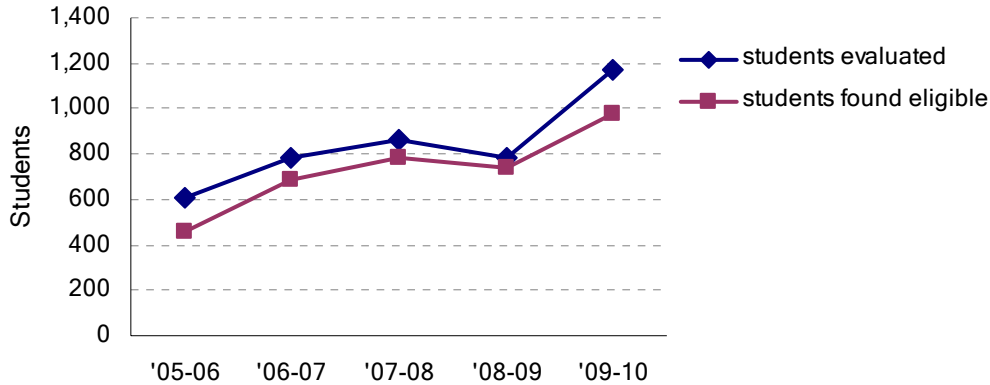
**Figure 21 State funding and special education caseload growth: 2006-07 to 2010-11 (adjusted for inflation)**

	'06-07	'07-08	'08-09	'09-10	'10-11*	change from '06-07
State funding per student	\$6,246	\$6,362	\$6,096	\$6,061	\$5,901	-5.5%
Total State funding (in millions)	\$44.5	\$44.9	\$44.8	\$45	\$42.7	-3.9%
# of students on IEPs	6,157	6,199	6,205	6,383	6,523	5.9%

Source: Funding data compiled by Auditor from State School Fund Grant and PPS Budget and Finance Reports. IEP count compiled from the Multi-Year Database and PPS Child Count submission for 2010-11. \* Inflation adjusted to 2009-10 dollars.

Over the past five years, PPS is evaluating more students for special education and finding more students eligible. As shown below, the number of student evaluated increased by 93 percent and the number of students found eligible increased by 112 percent from 2005-06 through 2009-10.

**Figure 22 Number of students evaluated and found eligible for Special Education: 2005-06 to 2009-10**



Source: Auditor analysis of PPS Child Find data

In addition, the composition of the special education caseload at PPS is becoming more costly than in previous years. As shown in the table below, more students are being identified in higher cost disability categories (e.g. Autism, Vision and Hearing impairment) than in previous years while lower cost disability categories are declining (e.g. Communication disorder, Specific Learning disability). Additional state revenues for students with high cost disabilities has also increased over the past several years but at a lower rate than the growth of students with these disabilities. State finance reports for 2009-10 indicate that the high cost disability grant available to Oregon school districts covers only about 50 percent of the allowable costs of these students statewide and only about 16 percent of the total costs of providing services to high cost students.

**Figure 23 PPS Special Education enrollment growth by disability: 2005-06 to 2009-10**

	'05-06	'06-07	'07-08	'08-09	'09-10	change from '05-06	average cost per student *
Deaf-Blindness	1	1	3	3	3	200%	\$47,343
Vision impairment	22	27	63	65	60	173%	\$36,006
Orthopedic impairment	91	103	93	100	88	-3%	\$30,778
Mental retardation	383	366	313	281	268	-30%	\$22,698
Autism	500	552	594	665	724	45%	\$20,039
Emotional disturbance	433	426	454	495	546	26%	\$16,539
Traumatic brain injury	30	28	18	16	13	-57%	\$15,651
Hearing impairment	68	69	90	84	100	47%	\$10,403
Other health impaired	825	856	938	1,042	1,042	26%	\$8,996
Specific learning disability	2,293	2,164	2,061	1,915	1,932	-16%	\$5,311
Communication disorder	1,598	1,565	1,572	1,539	1,607	1%	\$4,679
<b>TOTAL</b>	<b>6,244</b>	<b>6,157</b>	<b>6,199</b>	<b>6,205</b>	<b>6,383</b>	<b>2%</b>	<b>\$9,776</b>

Source: Disability statistics compiled by the Auditor from ODE's Multi-Year Database.

\* Average cost per student calculated by the Auditor from SPED's High Cost Database for 2008-09, the most recent year available.



## PPS PROVIDES SIGNIFICANT GENERAL FUNDS TO SUPPORT SPECIAL EDUCATION

PPS supports its Special Education program with additional general fund resources beyond the special education revenues provided by the state. As shown in the table below, dedicated revenues from the state are provided for special education students in several ways:

- an additional share of per student funding for special education students capped at 11 percent of enrollment,
- an additional allocation for a portion of the students above the 11 percent cap,
- a grant for students with high cost disabilities,
- reimbursement for 70 percent of actual transportation expenditures, and,
- resolution funding for purchase of services from educational service districts.

In addition to these revenues, PPS has allocated additional general fund resources to support the special education program, amounting to \$26.4 million in 2009-10, about 36 percent of total special education budget. These funds are available to support the PPS general education program but the district uses these resources to subsidize the costs of the special education program.

**Figure 24 Special Education additional General Fund allocation: 2005-06 to 2009-10**

(in millions)	'05-06	'06-07	'07-08	'08-09	'09-10
State School Fund grant (IEP students capped at 11% ADMr)	\$25.4	\$26.6	\$28.0	\$27.2	\$27.7
State School Fund grant (IEP students above 11% ADMr)	\$4.5	\$4.4	\$4.9	\$4.7	\$4.7
MESD Resolution Funds	\$0.8	\$1.3	\$1.1	\$1.1	\$1.1
High Cost Disability Grant	\$3.0	\$3.1	\$3.4	\$4.5	\$4.0
Transportation revenues	\$6.4	\$6.4	\$6.4	\$6.9	\$7.5
<b>Total SPED-dedicated General Fund revenues</b>	<b>\$40.0</b>	<b>\$41.9</b>	<b>\$43.9</b>	<b>\$44.4</b>	<b>\$45.0</b>
Additional GF allocation (computed)*	\$23.4	\$22.1	\$24.5	\$25.3	\$26.4
<b>Total SPED expenditures (General Fund/all depts.)</b>	<b>\$63.5</b>	<b>\$63.9</b>	<b>\$68.4</b>	<b>\$69.7</b>	<b>\$71.4</b>
Additional GF allocation % of total SPED expenditures	37%	35%	36%	36%	36%

Source: Compiled by Auditor from State School Fund and High Cost Disability Grant reports, PPS Grant Accounting Maintenance of Effort reports, and Budget Office reports on actual expenditures.

\* Additional general fund allocation is computed by subtracting Total SDED-dedicated General Fund revenues from Total SPED expenditures (General fund/all departments).

Several factors contribute to the need to subsidize special education services with additional general revenues. First, the state's special education funding formula establishes a cap on the percent of the district enrollment than may receive double funding due to special education eligibility. By establishing the 11% cap, ODE intends to control the over-identification of students for special education that may receive double funding from the state. The state provides additional funding for those students over the 11% cap but not at the full double funding rate. Consequently, districts do not receive full funding for students above the 11% limitation and districts must use other general revenues to support these students. For PPS, the district received only about 52 percent of full formula state revenue for the 1700 plus students exceeding the 11% enrollment cap in 2010-11. Also, as discussed previously, the state High Cost disability grant covers only about 16 percent of the actual costs of serving these students and the state reimburses only 70 percent of the student Transportation costs. Finally, the rate of general fund subsidy is influenced by the efficiency and effectiveness of service delivery at each school district.

PPS GENERAL FUND SUBSIDY, SPENDING, AND IDENTIFICATION RATE HIGHER THAN OTHER DISTRICTS

PPS provides a higher level of discretionary general fund support to its special education program than other larger districts in Oregon. As shown below, the 36 percent general fund subsidy at PPS is the highest subsidy of any of the other 11 school districts and exceeds the 20 percent average by 16 points. In two districts, Medford and Tigard-Tualatin, special education students represent about 11 percent of their school enrollment and the general fund subsidy was very small, 3 percent and 0 percent, respectively. Consequently, these schools met special education program needs within the 11 percent cap established under state school funding rules and needed minimal additional general fund resources to address special education needs.

**Figure 25 Special Education large district General Fund comparisons: 2009-10**

	Discretionary GF as % of total expenditures	SPED count as % of ADM	GF spending per student
PORTLAND	36%	14.7%	\$11,175
Salem-Keizer	34%	14.9%	\$9,033
Reynolds	30%	16.4%	\$10,034
Hillsboro	24%	12.8%	\$9,565
Springfield	18%	15.7%	\$9,259
Eugene	17%	15.0%	\$8,728
Beaverton	16%	12.4%	\$8,649
Bend-LaPine	14%	15.0%	\$7,529
Gresham-Barlow	13%	11.1%	\$9,222
North Clackamas	12%	12.5%	\$8,207
Tigard-Tualatin	3%	11.3%	\$8,131
Medford	0%	11.2%	\$8,823
<b>Average</b> (excluding Portland)	<b>20%</b>	<b>13.5%</b>	<b>\$8,831</b>

Source: Compiled by auditor from ODE Final 2009-10 State School Fund Grant accounting reports. Excludes federal funds.

PPS also identifies a higher than average percent of their Average Daily Membership<sup>3</sup> (ADM) for special education than other large Oregon districts and spends the highest amount per student. As shown in the table above, PPS identifies approximately 14.7 percent of its ADM for special education in 2009-10 compared to an average identification rate of 13.5 percent for the 11 other large Oregon districts. PPS spent approximately \$11,175 per special education student in 2009-10 compared to an average of \$8,831 for the other large districts in Oregon.

One factor contributing to the higher costs in PPS may be the number of high cost students enrolled at PPS. For example, in 2009-10, PPS had about 8.7 percent of the total special education enrollment but 17.6 percent of the high cost students (i.e. number of students with service expenses exceeding \$30,000 per student). Although actual expenses for these students exceeded \$21 million at PPS, the state high cost grant payment was approximately \$4 million in 2009-10, about 19 percent of the actual costs incurred to serve these students. On average the state high cost grant covers about 16 percent of the costs incurred at school districts in Oregon.

**Figure 26 High Cost student grant support: 2009-10**

	'09-10 child count	High Cost students	Actual costs for High Cost students	Grant payment
PORTLAND PUBLIC SCHOOLS	6,383	441	\$21.2 m	\$4.0 m
State	73,449	2,509	\$111.2 m	\$18 m
PPS as % of State	8.7%	17.6%	19.1%	22.2%

Source: ODE Report on High Cost Disability Grants prepared by Office of School Finance

Although it is difficult to obtain exactly comparable data, it also appears that compared to large urban school districts in Los Angeles, Oakland, SF, and Seattle, PPS has a higher identification rate - 13.7 percent versus the 11.8 percent average for these four cities.

<sup>3</sup> The SPED identification rate of 14.7% is based on the ODE Average Daily Membership count for the 2009-10 SSF grant. The ADM count differs from enrollment counts used to determine identification rates in Figures 6 and 27. Two different counts were used in order to ensure comparisons to other Oregon districts and to out of state districts were consistent and accurate.

**Figure 27 Special Education Student Identification Rates:  
Large Urban Districts, 2009-10**

	<b>Total enrollment</b>	<b>Number of SPED students</b>	<b>Identification rate</b>
PORTLAND PUBLIC SCHOOLS	<b>46,596</b>	<b>6383</b>	<b>13.7%</b>
Los Angeles Unified	667,273	82532	12.4%
San Francisco Unified	55,571	6295	11.3%
Oakland Unified	46,586	4874	10.5%
Seattle Public Schools	47,008	6056	12.9%
<b>Average identification rate</b>			<b>11.8%</b>

Source: California Department of Education DataQuest; Seattle Public Schools Enrollment Data; PPS Enrollment and Child Count data

## Additional strategies to better manage Special Education costs

**F**aced with growing costs and declining resources, PPS must pursue strategies that will provide a free and appropriate public education to disabled students while using available resources in the most cost effective manner possible.

Based on a review of recent academic literature and discussions with special education officials at PPS, other Oregon school districts, and the Oregon Department of Education, we have identified a number of strategies that may help improve the cost effectiveness of special education at PPS. PPS is actively pursuing some of these strategies and is considering others.

### INCREASE THE INCLUSION OF SPECIAL EDUCATION STUDENTS IN GENERAL EDUCATION

Some recent studies have found that more inclusion of special education students in general education environments can help improve special education student achievement and control the growth of costly separate, self-contained classrooms. Recent efforts in some California districts to educate disabled students, to the maximum degree possible, in the school and classroom the student would normally attend has shown very positive improvements in achievement test scores. Providing additional support services within the general education environment rather than place students in separate, more restrictive special education classrooms appears to be a national trend.

PPS special education managers believe that PPS needs to move toward a more inclusive model of general education that involves each school taking responsibility for all students attending their schools. Special Education is developing a new model for Learning Centers that reduces the student/teacher ratio and provides specialized services for students that supplements but does not replace the core curriculum instruction received in the general education classroom. This model will require more coordination between general and special education teachers, specialists, and school administrators to ensure that the individual needs of students are met. It will also require increased teaching skills in providing instruction to a broader range of students at various levels of academic achievement. SPED management hopes that the need for stand-alone, self-contained classrooms will decline over time.

The inclusion of more students in general education environments also has positive financial benefits. For 2008-09, the average cost per student in self-contained classrooms (not including classes at the Pioneer Schools) is \$15,411 compared to \$2719 for students who remain in general education for most of the day and receive special instruction in Learning Centers. See Appendix B for additional data on spending for special education placements.

While inclusion of more students in general education environments holds promise to improve student achievement and control costs, research shows and officials believe that a continuum of services to address the unique needs of more severely learning disabled students will continue to be needed. Research has shown that some students obtain better achievement in inclusive general education settings but other students, depending on their individual needs, will do better in environments that are more restrictive. A key variable in whatever environment districts choose is effective, high-quality instruction. According to researches, the first assumption should be that students should receive effective instruction in their regular general education classroom but districts need to provide a continuum of supports and placements.

## REVIEW PROCESSES FOR PRE-REFERRAL AND ELIGIBILITY DETERMINATION

One of the most significant factors influencing the cost of special education is the number of students found eligible for special education services. While federal and state laws largely govern disability eligibility, local districts have considerable flexibility in methods for referring students for assessments and processes for evaluating eligibility, particularly for students with learning disabilities. The category of Specific Learning Disability is the most common disability in Oregon and at PPS representing about 30 percent of total special education students. In addition, because federal and state regulations allow various methods to determine eligibility for students with Specific Learning Disability, research indicates that there may be considerable variation in the eligibility determinations.

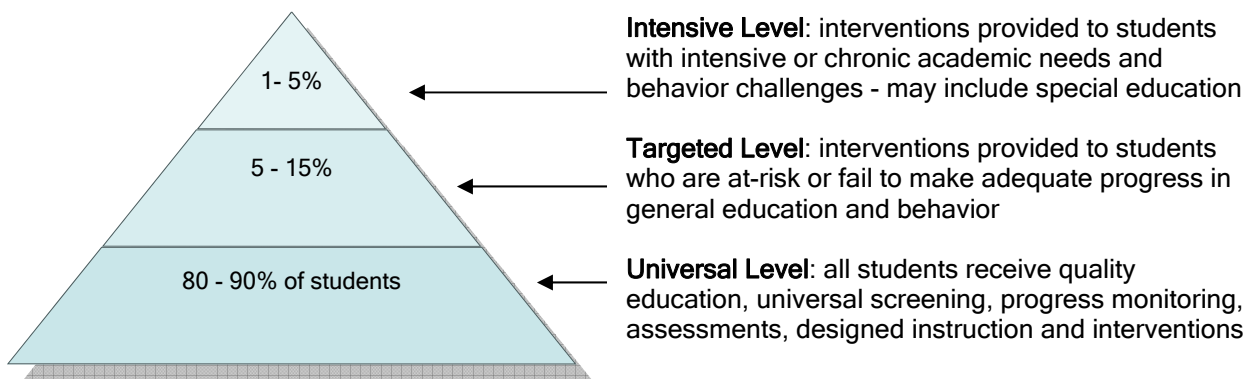
Our audit work did not include a thorough analysis of the processes for pre-referral, assessment, and evaluation determinations. However, a number of officials expressed concerns about the lack of consistency in these processes. As shown on page 33, the number of students evaluated and found eligible for services has increased steadily over the past five years. In addition, PPS officials believe there is considerable variation among PPS schools in the percent of students referred for special education evaluation and the percent that are determined to be eligible. Our analysis of the Child Find data for 2009-10 suggests that this belief may be true. While on average 83 percent of referred students were eligible across PPS schools, eligibility determinations ranged significantly from 50 percent of referred students found eligible to consistently 100 percent found eligible. See Appendix C for details on PPS special education referral and eligibility rates. A separate performance audit of these processes may contribute to a fuller understanding of the best methods for ensuring that special education caseloads are effectively controlled and eligibility determinations are consistent across all schools in the district.

The district may wish to clarify and provide direction to schools on the preferred methods for determining special education eligibility related to Specific Learning Disability. SPED adopted current policies to allow various models permitted under the 2004 reauthorization of IDEA. Although the district continues to use traditional discrepancy approaches to identify students with learning disabilities, plans to implement new approaches such as “Patterns of Strengths and Weaknesses” next year may not be consistent with plans to implement RTI-based eligibility.

## IMPLEMENT A RESPONSE TO INTERVENTION (RTI) STRATEGY

With the reauthorization of IDEA in 2004, the Response to Intervention (RTI) school reform strategy has gained significant support throughout the country. Initially developed in the late 1980’s as a means to reduce special education referrals and costs, school researchers now view RTI as a comprehensive school reform model for all students. As shown below, RTI process involve systematic assessment and monitoring of student academic and behavioral performance, provision of instructional services and special interventions to address weaknesses, and the application of more intense interventions, including eligibility for special education, until students reach targeted skill levels.

**Figure 28 Expected levels of instruction and intervention - RTI Model**



Source: Adapted from State of Colorado Response to Intervention approach

While RTI is a strategy for all students, it has achieved importance for special education because IDEA now allows local districts to use RTI to determine if a child has a specific learning disability. The law also permits local districts to use up to 15 percent of its federal IDEA funding for students that have not been identified as needing special education but need additional academic and behavioral support to succeed in the general education environment. Consequently, the RTI model has the potential to



provide various instructional interventions to struggling students before they are referred for an eligibility determination, thereby reducing the number of students found eligible for special education services. In addition, the progressive assessment and intervention process may result in more accurately identifying students that truly have learning disabilities.

PPS has only recently begun planning and implementing an RTI reform strategy in 2010-11. The district plans a phased implementation of RTI over five years with an initial emphasis on 17 low-performing K-8 schools then expanding to additional schools in year two and to all schools in year three. PPS will align RTI to the district goals for improving student achievement and meeting performance milestones. According to the PPS RTI Coordinator, the district is in the beginning stages of rolling-out an RTI strategy and significant work is needed to ensure it is implemented consistently and staff receive adequate professional development. While the district may eventually use RTI to determine eligibility for special education, how and when this will occur is still unknown at this time.

Despite the belief that an RTI strategy will reduce special education referrals and improve the accuracy of special education identification, we found little empirical evidence that RTI has clearly produced these positive results for school districts. There is some evidence that suggests RTI has the potential to slightly reduce referrals and that the accuracy of referrals can be improved for some students. However, research also shows that it will take time to see positive impacts because implementation of RTI is a 3 to 5-year process. Using RTI as a tool for determining eligibility for special education is one of the last steps in implementation of RTI.

While RTI appears to hold some promise for special education to improve achievement and reduce costs and caseloads, immediate improvement in special education cost effectiveness is not likely due to the lengthy and uncertain success of implementation of RTI at PPS. Other strategies may have a more timely impact on improving services and controlling costs.

## IMPROVE INFORMATION SYSTEMS AND DEVELOP BETTER MANAGEMENT INFORMATION

Timely, reliable, and complete information can help managers improve the operation and cost effectiveness of complex and highly regulated programs such as special education. Good management information on caseloads, services, revenues, and expenditures is critical for monitoring operations, reviewing and approving actions, and making financial and operational decisions.

PPS has developed some valuable information on the special education population but existing information systems are cumbersome and costly, and complete information on IEP services, costs, and goals is hard to access and use. The eSIS software is not designed to support special education forms and processes and the department must employ manual data entry and other software tools to collect and report on student eligibility, caseload counts, high cost students, and other required information. Also, information about IEPs (e.g. type of services, goals, cost of services) is not available on a web-based, relational data base that can be viewed and shared by parties involved in the delivery and management of special education. Consequently, IEP teams rely on paper-generated documents, team communication and collaboration is difficult, and SPED cannot perform comprehensive analysis of the cost and performance of IEP services.

The Special Education department has realized for a number of years the inadequacy of existing information systems and the need for better management information. While efforts to develop a web-based IT system were not successful in the past, PPS purchased a web-based software system for special education at the end of 2010-11 using an ODE grant. This system will be in place next year and will permit staff to enter IEP information directly into a database that will interface well with other student information systems. According to managers, the software will significantly reduce manual data entry, improve sharing and review of IEP data, and permit on-going analysis of IEP services and costs. Training for staff will begin this spring and summer.

There are additional opportunities for special education to make greater use of existing information that the district collects and reports to ODE annually. Significant information is also available from the multi-year database that ODE provides to the district. Information from these sources is rich with detail on special education students receiving services, the level of services provided to high cost students, the number and nature of suspensions and expulsions, and students exiting the program. Using the ODE multi-year database, ten-year trends and comparisons to other Oregon districts is possible. However, information from these sources is used infrequently by district managers to assess trends in caseloads and disability categories, to monitor the nature and level of high cost services, or to compare PPS to other districts. In addition, because ODE uses this information to assess PPS compliance with IDEA requirements, more proactive and systematic review of this data by management could help identify compliance problems and negative trends on a timely basis so that corrections could be made before sanctions occur.

## CONTROL USE OF PARAPROFESSIONALS

Over the past five years, while special education caseload increased about 5.9 percent, the number of paraprofessionals assigned to special education classrooms and students increased from 331 to 450, a 36 percent increase. The district assigns approximately 80 of these paraprofessionals to work “one-on-one” as aides to individual students at an average cost per student of about \$40,000. Paraprofessionals are valued members of the special education team and provide a variety of benefits to classroom teachers, including assisting students with personal care, doing clerical tasks for teachers, and engaging students in tutoring, homework help, and instruction. According to academic literature, teachers and parents appreciate the availability of another adult to provide extra help in the classroom.

However, with the growth of individual or “one-on-one” professionals over the past several years, PPS officials express and research identifies a number of concerns with the increased use and cost of paraprofessionals in inclusive classroom settings. Specifically, while schools provide paraprofessional support with the best of intentions, there is little evidence to suggest that students do as well or better in school academically or socially when taught by paraprofessionals. Based on recent research a number of issues are emerging regarding the training, use, and supervision of paraprofessionals.<sup>4</sup>

1. The least qualified staff members are teaching students with the most complex learning characteristics. Paraprofessionals are assuming a more prominent role in instructing students with disabilities and may be questionably prepared to assume that role
2. Paraprofessional supports are linked with inadvertent detrimental effects. Excessive proximity to paraprofessionals can increase student dependency and interfere with peer interactions
3. Individual paraprofessionals are linked to lower levels of teacher involvement. Teacher involvement and engagement with disabled students is greater when paraprofessionals are not in close proximity, and lower when one-on-one paraprofessionals are assigned
4. Teachers, parents, and students may not be getting what they deserve and expect. Too many paraprofessionals are inadequately trained and supervised, some lack skills in subjects they are asked to support, and many one-on-one paraprofessionals spend less time instructing than group paraprofessionals

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<sup>4</sup> “Be Careful What You Wish for ...” Five Reasons to be Concerned About the Assignment of Individual Paraprofessionals – Council for Exceptional Children, May/June 2005

5. Providing paraprofessionals my delay attention to needed changes in schools. schools may not be motivated to address the capacity of classroom teachers to differentiate instruction for mixed-ability groups if paraprofessionals assume increasing levels of responsibility for student learning

Special Education managers told us that they will closely review policies for the assignment of one-on-one paraprofessionals over the next year as they design new delivery models for special education and increase the capacity of school Learning Centers. Paraprofessionals assigned to self-contained classrooms might be comparatively over-staffed compared to other districts. Managers said the district may need fewer paraprofessionals and may need to use them differently. Three suggestions from a consulting firm aligns with these ideas and provides some general guidelines on how to make decisions about the assigning paraprofessionals<sup>5</sup>. These guidelines suggest that school should schedule paraprofessionals on a building-wide basis and not student by student. Also, schools should be very specific about how much assistance is given and when the assistance is needed.

#### CONTINUE TO SEARCH FOR TRANSPORTATION EFFICIENCIES

The transportation of special education students to schools is a significant cost of providing services to disabled students, representing about 14 percent of total spending. In total, over 1500 special education students received some sort of transportation service from PPS in 2009-10. Approximately 1058 special education students rode a school bus, 117 students used a regular fare taxi to get to school, and 64 students were transported in secure vehicles or vans. In addition, 26 students were driven by parents that agreed to receive a reimbursement from PPS in lieu of a taxi. Other special education students and staff used a Tri-Met pass.

The costs of transportation have been difficult to control over the past five years. As shown in the table below, total spending has increased by 9 percent but actual spending has exceeded planned budgeted amounts in each of the past five years. Total cost per special education student receiving some sort of transportation service by PPS has increased about 7 percent. In 2009-10, overspending reached \$2 million, or 23% of the transportation budget for special education. When total transportation costs are divided by the total number of students on IEPs, PPS spends more per student on SPED transportation than other large districts - \$1,683 per student versus an average of \$957 for 11 other Oregon districts.

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<sup>5</sup> A Win-Win Approach to Reducing Special Education Costs: Tough times demand districts increase the cost effectiveness of special education – District and Community Partners, Boston MA

**Figure 29 Special Education Transportation spending: 2006-07 to 2010-11**

	'06-07	'07-08	'08-09	'09-10	'10-11(est)	% change
Budget (millions)	\$8.3	\$8.2	\$8.8	\$8.7	\$9.4	-
Actual spending	\$9.1	\$9.2	\$9.8	\$10.7	\$9.9	9%
Actual over budget	\$ .8	\$1.0	\$1.0	\$2.0	\$ .5	-
% over budget	9.7%	11.7%	11.6%	23.3%	5%	-
Cost per student *	\$7,400	\$7,032	\$7,580	\$8,692	\$7,942	7%

Source: PPS Transportation and Budget records

\* approximately 20% of Special Education students on IEPs receive transportation provided by PPS

The PPS Transportation Office has made a number of efforts in the last year to control the growth in special education transportation costs. Actions included confirming needs for assigned taxis and secure vehicles and making adjustments to IEPs when special transportation was found to be no longer needed; paying parents to transport children instead of paying a higher taxi fare; and reviewing and adjusting bus routing to improve efficiency.

However, it is difficult to control some transportation requirements for those students receiving special IEP services that may be delivered at locations some distance from their homes. Currently, PPS transports some students to mental health programs in Beaverton, to educational service district programs in Gresham, and to community college classes in Rock Creek. Other students with low functioning life skills require more secure and safe transportation options. Program changes like the Redirection Program and structural changes at the Community Transition Center also increase costs.

Additional transportation savings may be possible in the future by increasing the collaboration among all parties involved in the delivery of services to disabled students - general and special education teachers, administrators, financial and purchasing analysts, and transportation staff. According to recent literature on special education transportation, some the steps districts could take to improve the cost effectiveness school districts include:

1. Involve more team members in discussing the various options to provide transportation services during the development of student IEPs
2. Bargaining harder with taxi and other transportation vendors to obtain better prices for contracted services

3. Continually searching for ways to share rides and reduce single student trips
4. Modifying expensive special transportation services to meet needs in a less costly way such as paying parents for transport in lieu of taxis
5. Expanding public transportation use and lowering costs through price discounts and the use of trip tickets rather than annual passes
6. Analyzing the balance between in-house bus drivers and contracted bus services to identify opportunities to shift routes to less costly contracted bus service
7. Evaluate new technologies that would improve efficiencies such as alternative fuels to reduce bus fuel costs and using GPS to improve bus routing

**INCREASE MEDICAID REIMBURSEMENT EFFORTS**

In accordance with the federal Medicaid law and state regulations, local education agencies may receive reimbursement for necessary and appropriate health services provided to Medicaid eligible children who have been identified as disabled under the Individuals with Disabilities Education Act (IDEA). School based health services that are eligible for Medicaid reimbursement include services such as occupational and physical therapy, speech and language therapy, psychological services, and transportation.

Although the PPS district has requested significant Medicaid reimbursements in prior years, the district pursued Medicaid reimbursements for only two small programs at Pioneer and the DART over the past five years. As shown below, these reimbursement resulted in PPS collection of \$264,700 in five years.

**Figure 30 PPS General Fund Medicaid reimbursement revenues for eligible Special Education services: 2006-07 to 2010-11**

<b>2006-07</b>	<b>\$ 35,000</b>
<b>2007-08</b>	<b>\$ 5,200</b>
<b>2008-09</b>	<b>\$ 13,500</b>
<b>2009-10</b>	<b>\$ 152,000</b>
<b>2010-11 (est)</b>	<b>\$ 59,000</b>
<b>TOTAL</b>	<b>\$264,700</b>

Source: PPS Finance

According to PPS officials, there are significant opportunities to increase PPS general fund revenues by more actively pursuing allowable Medicaid reimbursements for services provided to students receiving special education services. If approximately 35<sup>6</sup> percent of the special education student caseload is eligible for Medicaid, over 2000 students receive services that are eligible for reimbursement. In 2009-10, the district incurred over \$18 million in expenses for services, such as speech and occupational therapy that are potentially reimbursable services under Medicaid. If Medicaid eligible special education students received several hours of service for these services, potential reimbursable amounts could easily exceed \$1 million dollars annually. According to grant officials, prior to 2006-07 PPS routinely collected amounts over \$1 million annually. In comparison, the Salem-Keizer School district with a smaller special education caseload collected \$2.5 million in Medicaid reimbursements over the past three years.

Several factors currently inhibit the district from more actively pursuing Medicaid reimbursement for services provided to Medicaid eligible special education students. Principally, the district lacks easy access to sufficiently detailed data on the type and amount of services provided to students in accordance with their IEP. Workload data on how many hours were provided to students for speech therapy, occupational therapy, transportation, and other reimbursable services is not readily available from a validated automated information system. As discussed earlier in this report on pages 29 and pages 43, the district missed opportunities to purchase an improved web-based system for special education with temporary ARRA funding. Actions taken at the end of 2010-11 to purchase a web-based system to support special education processes may be a positive first step to providing additional information to support Medicaid billings and increase reimbursements.

## CONTROL THE COST OF SUBSTITUTE TEACHERS AND PARAPROFESSIONALS

Although the cost of substitute teachers is a relatively small part of the overall cost of special education, spending on substitute teachers and paraprofessionals has increased steadily over the past five years. As shown in Figure 20 on page 31, spending for substitutes increase from \$1.4 million in 2006-07 to \$2.7 million in 2010-11, a 93 percent increase.

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<sup>6</sup> Percent of children eligible for Medicaid in Multnomah County ranges from 35% to 45%.

**Figure 31 District substitutes for SPED teachers and paraprofessionals: 2009-10**

	<b>% of staff absent daily</b>	<b>Average annual absences</b>	<b>Total cost of substitutes</b>
Special Ed teachers	10%	17	
Paraprofessionals	9.4%	12.1	
			<b>\$ 2.7 m</b>

Source: PPS HR Department

The percent of special education teachers and paraprofessionals that are absent on average each day is very comparable - 10 percent of the teachers and 9.4 percent of the paraprofessionals. However, teachers request more absences each year than paraprofessionals. On average, teachers request 17 absences annually and paraprofessionals request 12.1 absences. Part of this difference may be due to teachers having more absence requests for in service training and professional development than paraprofessionals.

The reasons for teacher and paraprofessional absences vary in several ways. Paraprofessionals are absent for illness at a higher rate than teachers - 53.7 percent of absences are due to illness versus only 36.4 percent for teachers. However, teachers are absent at a much higher rate than paraprofessionals due to in service training and professional development - 21.9 percent of teacher absences are due to training and professional development while only 2.7 percent of paraprofessionals are absent due to these reasons. Teachers and paraprofessionals are absent at similar rates for emergencies, personal days, and family illness.

Controlling the costs of absences is an effort that is not unique to special education teachers and paraprofessionals. The district as a whole could benefit from lower absence rates. However, given the significant increase in special education absence costs over the past five years, special education absence costs may warrant particular attention. Actions to lower absence costs may include more supervisory review and attention to the issue, improved work conditions, and more recognition and assistance during periods of high workload.



**Figure 32 Absences by reason: 2009-10**

	<b>Illness</b>	<b>Inservice</b>	<b>Emerg. / personal</b>	<b>Family illness</b>	<b>School need</b>	<b>Prof. devel.</b>	<b>Other*</b>
Teachers	16,456	6,768	5,718	5,107	3,303	3,101	4,996
<b>% of total</b>	<b>36.4%</b>	<b>15%</b>	<b>12.6%</b>	<b>11.3%</b>	<b>7.3%</b>	<b>6.9%</b>	<b>11%</b>
Paraprofessionals	3,703	88	1,035	827	189	98	957
<b>% of total</b>	<b>53.7%</b>	<b>1.3%</b>	<b>15.0%</b>	<b>12%</b>	<b>2.7%</b>	<b>1.4%</b>	<b>13.9%</b>

Source: PPS HR department

\* Other includes field trips, funeral leave, jury duty, leave of absence, union business, unpaid absence, vacancy, workers compensation



# RECOMMENDATIONS

In order to improve the financial management of special education, the Portland Public School district should pursue a number of strategies. While some of these actions are currently underway, I believe additional efforts are needed to meet the educational needs of students with disabilities while also ensuring that financial and human resources are used in the most cost effective manner possible. Declining federal and state funding coupled with continuing maintenance of effort requirements, place significant demands on the district to address both special education legal mandates and the broader mission of the district to improve student achievement for all students. In order to address these demands, I recommend that the Superintendent and the Chief Academic Officer take the following actions:

- 1. Manage and control the maintenance of effort spending base.** The district should more deliberately control the growth of the maintenance of effort spending requirement. While increases in the MOE should occur regularly as special education enrollments and caseloads grow, unjustified increases commit the district to higher spending levels that are difficult to reduce and increase draws on general education resources.
- 2. Continue to strengthen and improve information technology capacity.** District plans to implement new web-based software for special education should help address the long-standing inadequacies of existing information systems. Management should ensure that the system when implemented reduces the cost of data entry, improves the review and sharing of IEP information, and permits better management of IEP goals and costs. The system should also produce detailed information to support reimbursement of allowable service costs provided to Medicaid eligible students.
- 3. Improve management oversight and decision-making by producing and using better management information.** District special education managers should prepare and report regularly on the operations of special education. The department should consider reporting monthly or quarterly on special education caseloads, referral and eligibility trends, IEP goal achievement and service costs, and other critical information to improve monitoring and oversight. The district should also improve the amount and nature of special education information included in annual budget requests so that the school board can make more

informed resource allocation decisions. Finally, periodic annual reports on special education performance (effectiveness and efficiency indicators) should be available to parents and the community.

4. **Manage and control special education caseloads by pursuing policies that improve referral, eligibility, and placement decisions.** The district should continue to develop policies and pursue initiatives that will serve special education students better while also controlling caseloads and service costs. Specifically, efforts to strengthen school-based learning centers and to implement early intervention strategies hold potential to 1.) help students progress with their peers in general education, 2.) receive more intensive academic and behavior supports when needed, and 3.) avoid inappropriate referrals to special education or placement in costly, self-contained classes. In addition, the district should consider reviewing and clarifying policies for determining eligibility for specific learning disabilities in order to reduce the variation in eligibility determinations among schools for this disability and avoid over-identification of students for special education services.
5. **Search for specific opportunities to reduce costs and increase revenues.** The district should increase efforts to identify cost saving and increase revenues. Opportunities exist to control the number of paraprofessionals assigned to individual students, to mitigate the growth in transportation service costs, and to reduce the number of times each year that special education teachers and paraprofessionals need a substitute due to illness, emergencies, training, or other reason. The district should also vigorously pursue allowable reimbursements for services provided to Medicaid eligible special education students. Proper documentation should be gathered to support the reimbursement requests. Cost savings generated from these actions can be reprogrammed in special education to provide additional resources to support the provision of services to students with disabilities.

# MANAGEMENT RESPONSE





## PORTLAND PUBLIC SCHOOLS

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**Carole Smith**  
Superintendent

### OFFICE OF THE SUPERINTENDENT

August 17, 2011

Richard C. Tracy, District Performance Auditor  
Portland Public Schools Board of Education  
501 N. Dixon Street  
Portland, Oregon 97227

Dear Mr. Tracy:

Thank you for your detailed review of Portland Public Schools' financial management of Special Education.

As school districts all over the nation struggle to provide the best services to students with special needs during continuous budget cuts, many districts are reviewing practices and working to implement new and more cost effective service delivery models for special education. Portland Public Schools is one of those districts.

Over the past several years, Portland Public Schools' special education department has experienced performance reviews, audits, and participated in redesign studies that included improving services to students, increasing student achievement and reducing costs. The ability to manage costs efficiently in delivering services to students with special needs not only improves budgetary health of the special education department, but also enables increased general fund dollars to be used for the benefit of all students.

In addition to steps taken by the special education department to address factors listed in the audit report, district leadership is working to build a more inclusive framework at each school site for students with special needs. Presently, there is an over-reliance on special education staff / services throughout the district when working with students with special needs, or students thought to have special needs. As this new framework is implemented, we hope to see more district aligned interventions and services applied to meet the needs of students before seeking special education services, which would reduce cost as well.

Five factors were identified that would improve the financial management and services of special education in Portland Public Schools:

- Manage and control the maintenance of effort spending base.
- Continue to strengthen and improve information technology capacity
- Improve management oversight and decision-making by producing and using better management information.

- Manage and control special education caseloads by pursuing policies that improve referral, eligibility and placement decisions.
- Identify specific opportunities to reduce cost and increase revenues.

Many of these recommendations align with current work that is underway. Currently we are implementing the following actions:

**Manage and control maintenance of effort spending base.**

Declining state and federal funding will continue to impact Portland Public Schools. I am committed to ensuring that federal and legal mandates, as well as our overall goal to improve student achievement, is based upon fiscally sound decisions. We are addressing this issue in several ways:

- Special education, budget and the Chief Academic Officer engage in quarterly meetings to review MOE spending patterns and trends.
- Special education has set aside resources within the department budget to make certain that unforeseen expenses can be covered.
- Special education will continue to utilize grant funding sources for professional development to offset the cost of substitutes being calculated into maintenance of effort.

**Continue to strengthen and improve information technology capacity.**

Capitalizing on the use of technology is essential for our district to produce accurate reports, provide real time data for staffing purposes and reduce costs for data entry. In order to meet this goal, we have recently purchased a web-based system, with an ODE Enhancement Grant, that will allow us to accurately track student counts, produce state and federal reports and assist moving the district forward in Medicaid billing.

**Improve management oversight and decision-making by producing and using better management information.**

At this time the special education department is updating many of our policies and procedures that impact the day to day operations of special education. Right now, we are implementing:

- Revised policies and procedures relating to allocation of paraprofessionals and placements in self-contained classrooms.
- The special education administrative group will continue to report on practices and operations to the Chief Academic Officer and/or Academic Cabinet.
- Creating learning modules for principals relating to managing special education services and supports within their buildings to ensure that compliance and effectiveness of programming is in place.

**Manage and control special education caseloads by pursuing policies that improve referral, eligibility and placement decisions.**

This is a priority for our school district. Portland Public Schools currently has one of the highest percentages of special education students on the west coast. Our long term goal will be to service more students in their neighborhood schools (i.e. seeing natural proportions of students with disabilities enrolled in their neighborhood schools). Work on this initiative is currently in process:

- A district wide intervention resource team will be in place for the 2011-12 school year. The purpose of this team will be to consult and advise building teams that may be considering a more restrictive placement for a student.



- Building the capacity of individual school staff to address the rise in behavioral challenges of students and working with students with autism.
- Collaborating and partnering with the SAS and RtI departments around the use of Instructional Specialists and behavioral programming.

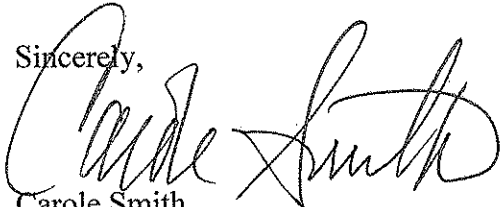
**Search for specific opportunities to reduce costs and increase revenues.**

As federal dollars continue to be slashed, it is vital that we seek funding opportunities and focus on providing essential and mandated IDEA services with validity and integrity. In order to do this, we will continue to work on identifying effectiveness of our programs, and search for grant funding options, including billing for Medicaid.

The PPS leadership team agrees with the recommendations of the report and will continue to work towards full implementation of the recommendations. Special education services are essential for many students and families, and increasing our ability to reduce costs through better management of resources and delivering services more efficiently is a significant starting point that will benefit all students within our district.

We appreciate the information you provided which will assist the school district in managing resources for students with special needs more efficiently and effectively.

Sincerely,



Carole Smith  
Superintendent

C: Carla Randall  
Zeke Smith  
Jollee Patterson  
Robert Ford



# APPENDIX A

## Bibliography of Special Education Literature

*A New Era: Revitalizing Special Education for Children and Their Families*  
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*Challenging Change: How Schools and Districts are Improving the Performance of Special Education Students* National Center for Learning Disabilities 2008

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Thomas B. Parrish, Director of the Center for Special Education Finance, American Institutes of Research - *National and State Overview of Special Education Funding* - Presentation to Kansas Association of Special Education Administrators, March 2006

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*Finding Efficiencies in Special Education Programs* by Christina A. Samuel - Education Week, January 5, 2011

*Delivering and Managing Special Ed More Efficiently* by Daniel Schiff and Nicholas P. Morgan - The District Management Council Journal - Spring 2009

*A Win-Win Approach to Reducing Special Education Costs* by Nate Levenson - District and Community Partners Boston MA

*Lessons from California Districts Showing Unusually Strong Academic Performance for Students in Special Education* - Mette Huberman and Tom Parrish - American Institutes of Research, January 2011

Chester E. Finn et al - *Rethinking Special Education for a New Century* - Thomas B. Fordham Foundation and the Progressive Policy Institute - May 2001

Christopher B. Swanson, PHD - *Special Education in America* - Education Research Center - November 2008

Thomas Parrish et al - *State Special Education Finance Systems, 1999 -2000*,  
Center for Special Education Finance - March 2004



# APPENDIX B

## SPED CLASSROOM PLACEMENT COSTS: 2008-09

SPED programs	Average cost per student	Average number students per class	Total cost per class	Total students in this placement	Total cost for placement
Learning Center	\$2,719	30	\$81,555	4,146	\$11,270,904
SLC-B (K-5)	\$13,386	12	\$160,633	150	\$2,007,908
SLC-B (6-8)	\$10,091	12	\$121,094	86	\$867,839
SLC-B (9-12)	\$8,073	15	\$121,094	101	\$815,365
SLC-CB Classroom	\$23,971	10	\$239,710	110	\$2,636,813
SLC-LS Classroom	\$16,681	12	\$200,171	311	\$5,187,776
SLC-LS With Nursing Classroom	\$20,017	10	\$200,171	36	\$720,617
Pioneer (Admin and Classroom)				274	\$8,155,096
Pioneer SLC-B & Day Treatment	\$14,558	10	\$145,579	228	\$3,319,194
Pioneer CTC	\$7,069	15	\$106,042	20	\$141,389
Pioneer FLS classroom	\$44,031	6	\$264,189	26	\$1,147,213
Overhead Cost Pioneer	\$12,946	274	\$3,547,300	274	\$3,547,300
<b>Total Classroom/Placement Costs</b>					<b>\$31,662,318</b>
<b>Self-Contained Classroom Cost</b>					
excluding Pioneer	\$15,411			794	\$12,236,318
including Pioneer	\$19,093			1,068	\$20,391,414

Source: PPS SPED 2008-09 Cost Spreadsheets

**SPED RELATED SERVICES COSTS: 2008-09**

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	<b>Average cost per student</b>	<b>Total students</b>	<b>Total cost</b>
Nursing in life skills class	\$14,860	42	\$624,116
Extended school year	\$2,196	130	\$285,447
Speech/language therapy	\$2,124	3,366	\$7,150,876
Physical therapy	\$3,026	133	\$402,441
Occupational therapy	\$2,139	737	\$1,576,167
Adaptive PE	\$1,827	482	\$880,794
MESD nurse	\$16,980	45	\$764,086
MESD	\$25,461	59	\$1,502,206
1:1 Paraeducator	\$39,539	69	\$2,728,191
1:1 Teacher	\$46,281	4	\$185,122

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Source: PPS SPED 2008-09 Cost Spreadsheets

# APPENDIX C

## 2009-10 SPED CASELOADS, REFERRALS AND ELIGIBILITY RATES by SCHOOL

	Enrollment	SPED caseload (and % of enrollment)		Referrals (and % of enrollment)		Eligible (and % of referrals)	
<b>Elementary schools</b>							
Abernethy Elem	392	55	14%	19	5%	14	74%
Ainsworth Elem	528	27	5%	9	2%	9	100%
Alameda Elem	744	81	11%	24	3%	19	79%
Arleta Elem	420	81	19%	13	3%	11	85%
Astor Elem	458	89	19%	19	4%	17	89%
Atkinson Elem	491	57	12%	11	2%	10	91%
Beach Elem	538	52	10%	7	1%	7	100%
Beverly Cleary School	552	75	14%	15	3%	12	80%
Boise-Eliot	417	64	15%	29	7%	24	83%
Bridger Elem	331	63	19%	11	3%	11	100%
Bridlemile Elem	480	61	13%	7	1%	5	71%
Buckman Elem	492	74	15%	21	4%	17	81%
Capitol Hill Elem	357	52	15%	19	5%	17	89%
Chapman Elem	544	79	15%	11	2%	11	100%
Chief Joseph Elem	377	47	12%	19	5%	12	63%
Clarendon-Portsmouth	484	66	14%	21	4%	19	90%
Creative Science School	301	50	17%	9	3%	9	100%
Creston Elem	333	53	16%	9	3%	6	67%
Duniway Elem	423	41	10%	10	2%	8	80%
Faubion Elem	393	62	16%	20	5%	17	85%
Forest Park Elem	501	30	6%	3	1%	3	100%
Glencoe Elem	474	50	11%	24	5%	16	67%
Grout Elem	346	46	13%	13	4%	10	77%
Harrison Park School	732	110	15%	28	4%	28	100%
Hayhurst Elem	385	51	13%	4	1%	3	75%
Humboldt Elem	275	38	14%	1	0%	1	100%
Irvington Elem	505	85	17%	20	4%	11	55%
James John Elem	384	56	15%	16	4%	15	94%
Kelly Elem	467	68	15%	14	3%	14	100%
King	336	62	18%	4	1%	4	100%
Laurelhurst Elem	708	90	13%	37	5%	34	92%
Lee Elem	458	76	17%	15	3%	15	100%

Lent Elem	549	98	18%	26	5%	25	96%
Lewis Elem	374	60	16%	19	5%	17	89%
Llewellyn Elem	434	49	11%	32	7%	29	91%
Maplewood Elem	342	35	10%	15	4%	10	67%
Markham Elem	376	56	15%	20	5%	18	90%
Marysville Elem	435	69	16%	19	4%	17	89%
Ockley Green	299	43	14%	12	4%	10	83%
Peninsula Elem	375	81	22%	12	3%	8	67%
Richmond	569	24	4%	8	1%	5	63%
Rieke Elem	371	32	9%	10	3%	6	60%
Rigler Elem	596	84	14%	29	5%	27	93%
Rosa Parks Elem	463	76	16%	22	5%	17	77%
Roseway Heights	578	102	18%	13	2%	10	77%
Sabin Elem	348	41	12%	14	4%	14	100%
Scott Elem	563	79	14%	20	4%	20	100%
Sitton Elem	291	77	26%	16	5%	15	94%
Skyline Elem	294	37	13%	7	2%	7	100%
Stephenson Elem	335	35	10%	16	5%	16	100%
Sunnyside Environmental	585	58	10%	20	3%	19	95%
Vernon	397	42	11%	2	1%	1	50%
Vestal Elem	433	70	16%	15	3%	12	80%
Whitman Elem	372	52	14%	12	3%	12	100%
Winterhaven School	345	31	9%	6	2%	4	67%
Woodlawn Elem	449	66	15%	19	4%	18	95%
Woodmere Elem	397	61	15%	9	2%	8	89%
Woodstock Elem	433	47	11%	27	6%	25	93%
<b>Total</b>	<b>25,629</b>	<b>3,496</b>	<b>14%</b>	<b>902</b>	<b>4%</b>	<b>779</b>	<b>86%</b>

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**Middle schools**

Beaumont Middle	450	63	14%	6	1%	5	83%
da Vinci Middle	456	43	9%	8	2%	6	75%
George Middle	388	90	23%	11	3%	9	82%
Gray Middle	419	65	16%	9	2%	7	78%
Hosford Middle	548	99	18%	5	1%	5	100%
Jackson Middle	651	102	16%	10	2%	6	60%
Lane Middle	397	82	21%	12	3%	11	92%
Mt Tabor Middle	559	60	11%	5	1%	3	60%
Sellwood Middle	480	58	12%	4	1%	3	75%
West Sylvan Middle	863	51	6%	4	0%	4	100%
<b>Total</b>	<b>5,211</b>	<b>713</b>	<b>14%</b>	<b>74</b>	<b>1%</b>	<b>59</b>	<b>80%</b>



<b>High schools</b>							
ACT	273	61	22%	4	1%	3	75%
Benson Polytechnic High	1,100	95	9%	5	0%	3	60%
BIZ Tech	284	50	18%	1	0%	0	0%
Cleveland High	1,553	124	8%	14	1%	2	14%
Franklin High	1,032	144	14%	11	1%	6	55%
Grant High	1,610	137	9%	11	1%	10	91%
Jefferson High	617	138	22%	3	0%	3	100%
Lincoln High	1,395	58	4%	2	0%	2	100%
Madison High	860	160	19%	21	2%	15	71%
Pauling Academy	175	29	17%	1	1%	1	100%
POWER	209	33	16%	4	2%	3	75%
Renaissance Arts Academy	288	61	21%	6	2%	6	100%
SEIS	199	38	19%	1	1%	0	0%
Wilson High	1,439	129	9%	14	1%	9	64%
<b>Total</b>	<b>11,034</b>	<b>1,257</b>	<b>11%</b>	<b>98</b>	<b>1%</b>	<b>63</b>	<b>64%</b>
<b>Alternative/community schools</b>							
Alliance High	267	39	15%	3	1%	3	100%
Metropolitan Learning Ctr	443	85	19%	3	1%	3	100%
Other Alternatives				62		43	69%
ACCESS	200		<i>na</i>				
Head Start	732		<i>na</i>				
<b>Total</b>	<b>2,848</b>	<b>124</b>	<i>na</i>	<b>68</b>	<i>na</i>	<b>49</b>	<b>72%</b>
<b>Charter schools</b>							
CM2 Opal School	80	13	16%	2	3%	1	50%
Emerson School	143	10	7%	2	1%	2	100%
Leadership & Entrepren.	274	55	20%	6	2%	3	50%
Portland Arthur Academy	143	13	9%	2	1%	2	100%
Portland Village School	264	22	8%	13	5%	9	69%
SEI Academy	128	16	13%	2	2%	2	100%
Trillium	342	51	15%	4	1%	4	100%
<b>Total</b>	<b>1,374</b>	<b>180</b>	<b>13%</b>	<b>31</b>	<b>2%</b>	<b>23</b>	<b>74%</b>
<b>SPED programs (DART etc.)</b>	<b>500</b>	<b>613</b>	<b>100%</b>				
<b>DISTRICT TOTAL</b>	<b>46,596</b>	<b>6,383</b>	<b>14%</b>	<b>1,173</b>	<b>3%</b>	<b>973</b>	<b>83%</b>

Source: Auditor's analysis of PPS Enrollment and SPED Child Find and Child Count data