

Joint Legislative Audit Committee
Office of the Auditor General



**REPORT TO THE
CALIFORNIA LEGISLATURE**

STATEWIDE COSTS AND ESTIMATED REVENUES
TO PUBLIC ENTITIES
FOR PRIVATE VOCATIONAL EDUCATION CONTRACTS
BY PROGRAM AREA - 1977/1978

PROGRAM AREA	NUMBER OF PROGRAMS	CONTRACT COST	ESTIMATED REVENUE GENERATED	DIFFERENCE BETWEEN ESTIMATED REVENUE AND COST
OFFICE	11	\$429,610	\$943,540	\$513,930
DISTRIBUTIVE	7	\$260,200	\$366,220	\$106,020
HEALTH	16	\$805,140	\$1,470,780	\$665,640
TECHNICAL	1	\$49,900	\$80,390	\$30,490
TRADE & INDUSTRY (T&I)				
COSMETOLOGY	120	\$4,726,030	\$19,319,910	\$14,593,880
BARBERING	5	\$314,530	\$1,439,860	\$1,125,330
OTHER T&I	3	\$171,720	\$372,860	\$201,140
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	4	N/A	N/A	N/A
ALL PROGRAM AREAS	167	\$6,757,130	\$23,993,560	\$17,236,430

**STATE VOCATIONAL EDUCATION CONTRACTS
WITH PRIVATE SCHOOLS
YIELD EXCESSIVE PUBLIC SCHOOL REVENUES**

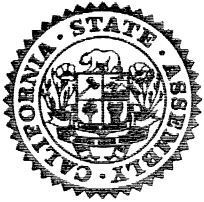
Office of the Auditor General
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REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

818

STATE VOCATIONAL EDUCATION CONTRACTS
WITH PRIVATE SCHOOLS
YIELD EXCESSIVE PUBLIC SCHOOL REVENUES

AUGUST 1978



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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August 10, 1978

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report on the expenditure of public funds for vocational education through private vocational schools. The program is administered by Dr. Wilson Riles, State Superintendent of Public Instruction and by Dr. William Craig, Chancellor of the California Community Colleges.

The findings are astounding! Over sixty-nine percent of the contracts let under the program were for cosmetology job training. Reimbursements by state and local public funds for private vocational education were \$24 million. Costs of private school contracts were \$6.8 million. Lawmakers and taxpayers will be asking about the excess funding to public schools of \$17.2 million.

By copy of this letter, the Department of Education and the Chancellor's Office are requested to advise the Joint Legislative Audit Committee within sixty days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department of Education and the Chancellor's Office.

The auditors are: Joan S. Bissell, Supervising Auditor; Steven L. Schutte; William S. Aldrich; and Edwin H. Shepherd. Support staff is Lucy Chin.

Respectfully submitted,

MIKE CULLEN
Chairman

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SUMMARY

State legislation enacted in 1973 authorized public educational entities--secondary school districts (including adult education programs), county superintendents of schools, regional occupational centers/programs and community colleges--to enter into contracts with private vocational schools to provide publicly supported vocational skill training.

The State Department of Education and the Chancellor's Office of the California Community Colleges are responsible for state-level administration of vocational education contracting, and local educational agencies are responsible for direct management of contracts.

Training for a variety of vocational skills has been provided through contracts with private schools; however, approximately 70 percent of contracts have been in the field of cosmetology. Thus, a significant effect of the contracting law has been to support, through state and local educational apportionments, vocational training programs in this field, some of which were ineligible for such public financing prior to 1974. Over 5,800 cosmetology training slots in private schools were publicly supported through contracting during 1977-78.

Improvement Needed in Management
of Vocational Contracting

Improvements are needed in the administration of vocational education contracts at the state and local levels.

For example:

- Requirements for labor market needs assessments and for ensuring no unnecessary program duplication have not been administered effectively (pages 23 to 26)
- State and local educational agencies have inadequately implemented contract cost and payment standards and contract award procedures (pages 28 to 33)
- Enrollment, completion and job placement data for contracted programs have been incomplete and unreliable (pages 35 to 37).

As a result, we are recommending that the Department of Education and the Chancellor's Office of the California Community Colleges:

- Establish and ensure implementation of consistent guidelines for performance of manpower needs assessments and for assurance of no unnecessary program duplication as conditions for approval of vocational education contracts (page 27)
- Require adherence to cost, payment and contract award guidelines for contracted vocational programs (pages 33-34)

- Improve procedures for reporting program enrollment, completion and job placement data for contracted vocational education programs (page 38).

Constitutionality of Contracting

The question of the constitutionality of vocational contracting between public educational entities and private schools has been raised on a number of occasions in the past. The California courts have not ruled on the specific subject, and unresolved issues raised by recent court decisions in related cases led the Legislative Counsel to take the position that it is not entirely clear whether private vocational contracting is or is not constitutional.

Financing of Private Vocational Contracts

Public educational agencies receive full state and local funding for students receiving training under vocational contracts although the costs of the contracts to public entities average only a fraction of the revenues generated. For example, during 1977-78, average contract costs to public entities were \$.72 per student hour, while estimated state and local apportionments received were \$2.55 per hour. The average cost for a student to complete a cosmetology training program through a contract awarded to a private school was \$992, but average state and local revenues public educational entities could generate for a complete contracted cosmetology program equaled \$4,064, representing a residual revenue to the public schools of \$3,072.

Total statewide costs for private vocational education contracts were approximately \$6.8 million in 1977-78 and total state and local revenues generated by these programs were approximately \$24 million, with public school entities receiving the residual revenues of \$17.2 million.

Private schools contracting with public educational entities frequently have few private tuition-paying students. In the sample of 18 schools reviewed during our audit, 12 had student bodies comprised of over 90 percent publicly subsidized enrollees.

Private schools may generate income from contracts not only through reimbursements for pupils enrolled, but also through student fees for supplies and equipment and through services to clientele.

Costs for various types of vocational training provided through contracts with private schools are reportedly lower than the costs of direct public school operation of programs in these fields for several reasons. By contracting with private schools for vocational training, public schools avoid capital outlay and start-up expenses for new offerings and reduce costs of faculty support and indirect instructional expenditures.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have reviewed contracting between public educational entities and private postsecondary schools entered into to provide vocational skills training. The review was conducted under the authority vested in the Auditor General by Government Code Section 10527.

The purpose of the review was to examine a range of fiscal and policy issues related to contracted vocational programs including:

- Enrollments and completions in contracted programs
- Costs and revenues for these programs and uses of excess funds by public school entities
- Income to private schools from contracted programs in addition to reimbursements for students enrolled
- The extent to which private schools under contract with public educational entities continue to serve private tuition-paying students
- Quality of state and local procedures for approving, monitoring and evaluating contracted programs

- Effectiveness of contracted programs in preparing students for employment
- Types of supportive services provided to pupils (e.g., counseling, job placement) as part of contracted programs, and differences between these programs and public school programs.

While our review focused on these topics related to the management of vocational contracts, it also addressed the fundamental issue of the constitutionality of the State's contracting law.

Study Limitations

Pursuant to the audit request, the review dealt with contracted vocational training authorized under the Education Code (Section 8092) and requiring approval by the Department of Education or the Chancellor's Office of the California Community Colleges. Some other contractual arrangements for vocational education established independent of this provision also exist. A few issues related to such additional contractual arrangements are dealt with in the report, but a detailed review of them was not undertaken.

The report provides statewide information for contracted vocational training on the topics for which available figures were determined to be reliable. However, for some topics, unreliable, inaccurate and/or inconsistent data prevented development of reliable

information on a statewide basis (total program enrollments and completions, additional income to private schools, effectiveness of contracted programs as measured by job placement rates, supportive services to pupils). In these areas, the report presents information from the site-visit sample only and/or describes limitations in presently available data and recommends improvements to address present shortcomings in data.

Scope and Methodology

In conducting the review, we:

- Analyzed contract data (types and numbers of programs offered, numbers of students involved, hourly costs, specified hours of instruction) for all reported contracted vocational education programs in the State from 1975-76 through 1977-78
- Performed a detailed review of 43 contracted programs maintained by 10 public school entities--5 regional occupational centers/programs serving principally secondary grade students, 3 community colleges and 2 adult education programs. This involved (a) site visits to each of these public entities and to 18 selected private schools with which a contract was maintained, (b) a review of fiscal and attendance records, evaluation data and management procedures

for these contracted programs, (c) interviews with staff and students involved in the contracted programs, and (d) on-site examination of programs during class hours

- Analyzed state records and management procedures for contracted programs administered by both the State Department of Education and the Chancellor's Office of the California Community Colleges
- Interviewed (a) staff of the Office of Private Postsecondary Education, State Department of Education, responsible for authorizing/approving private vocational schools in the State and approving courses for VA training program reimbursement, (b) individuals who were members of regional adult and vocational education councils, were involved with contracted programs, and were responsible for reviewing local vocational offerings to prevent/eliminate program duplication, and (c) state staff involved in administering other vocational training programs enrolling students in private vocational schools (e.g., CETA)
- Reviewed studies related to private vocational training in other states and to private vocational contracting in California.

BACKGROUND INFORMATION

Under provisions of Education Code Section 8092, public educational entities in California are authorized to contract for vocational training with private postsecondary schools and to receive apportionments to fund this training. The provisions, enacted through Chapter 985, Statutes of 1973, apply to school districts, community colleges, regional occupational centers and programs (ROC/Ps) and county superintendents of schools.

Contracting with private schools is a mechanism to enable public entities to provide vocational educational opportunities not otherwise available without incurring the expenses of establishing the programs themselves.

Provisions Governing Vocational Education Contracting

The Education Code requires that contracted programs:

- Be approved by and meet the rules and regulations adopted by the State Department of Education or the Board of Governors of the California Community Colleges
- Not exceed the costs of providing the same training in the public school or the tuition of the private institution

- Not charge additional tuition to students beyond that specified in the contract
- Meet the standards for vocational education set forth in the California Plan for Vocational Education.

The Education Code further specifies that all students served under contracts shall be enrollees of the public school entities and that the entities shall collect financial apportionments for these students.

Types of Contracted Vocational Education Programs and Numbers of Pupils Involved

State-level records for community colleges and ROC/Ps concerning numbers of contracts maintained and training slots involved contained some errors. More serious problems were found repeatedly in contract records for adult education programs; in some cases there were no records for these programs.* These limitations should be considered in interpreting figures regarding the extent of contracting reported by the State Department of Education and the Chancellor's Office of the California Community Colleges (see also pages 35 to 38).

* For example, the Department of Education's records did not include listings for some programs for which Education Code Section 8092 contracts had been negotiated by local school districts.

A total number of 167 vocational training contracts between local public educational entities and private schools were reported by the Department of Education and the Chancellor's Office during 1977-78, representing an increase in the number of such contracts compared with previous years (see Table 1 below). Although errors in records make it difficult to establish precise figures, the number of contracts has increased in each of the past few years.

TABLE 1

TOTAL STATEWIDE
PRIVATE VOCATIONAL EDUCATION CONTRACTS REPORTED,
BY DELIVERY SYSTEM *

DELIVERY SYSTEM	1975/1976		1976/1977		1977/1978	
	NUMBER	PERCENT**	NUMBER	PERCENT**	NUMBER	PERCENT**
REGIONAL OCCUPATIONAL CENTERS/PROGRAMS - OTHER ***	101	75.4	113	72.4	110	65.9
COMMUNITY COLLEGES	24	17.9	24	15.4	38	22.8
ADULT EDUCATION PROGRAMS	9	6.7	19	12.2	19	11.4
TOTAL	134	100	156	100	167	100

Source of data in all tables: State Department of Education and Chancellor's Office of the California Community Colleges.

* Unaudited data.

** Percentages in all tables are rounded.

*** This category includes ROC/Ps serving high school and adult pupils, programs maintained by county superintendents of schools and school district secondary programs. Almost all of the 110 contracts in this category reported in 1977-78 involved ROC/Ps.

Approximately 70 percent of contracted programs were in cosmetology, although contracts were also maintained in some other fields including health occupations (e.g., medical and dental assistants), office occupations (e.g., secretarial training) and distributive fields (e.g., merchandising), as indicated in Table 2.

TABLE 2
TOTAL STATEWIDE
PRIVATE VOCATIONAL EDUCATION CONTRACTS REPORTED,
BY PROGRAM AREA*

PROGRAM AREA	1975/1976		1976/1977		1977/1978	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
OFFICE	9	6.7	14	9.0	11	6.6
DISTRIBUTIVE	6	4.5	6	3.8	7	4.2
HEALTH	14	10.4	15	9.6	16	9.6
TECHNICAL	1	0.7	1	0.6	1	0.6
TRADE & INDUSTRY (T&I)	103	76.9	117	75.0	128	76.6
COSMETOLOGY	(94)	(70.1)	(108)	(69.2)	(120)	(71.9)
BARBERING	(3)	(2.2)	(4)	(2.6)	(5)	(3.0)
OTHER T&I	(6)	(4.5)	(5)	(3.2)	(3)	(1.8)
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	1	0.7	3	1.9	4	2.4
TOTAL	134	100	156	100	167	100
	===	===	===	===	===	===

* Unaudited data.

The training slots reported in contracted programs by delivery system are indicated in Table 3. These figures represent the number of public entity pupils for whom private schools have contracted slots (estimated average enrollments) at any given time. The total number of students who participate in contracted programs generally exceeds the number of slots negotiated; this reflects the fact that many pupils do not complete the total number of hours specified in contracts for full program completion, but rather enroll for only a part of the training program.

TABLE 3
TOTAL STATEWIDE
CONTRACTED NUMBER OF TRAINING SLOTS REPORTED IN
PRIVATE VOCATIONAL EDUCATION PROGRAMS
BY DELIVERY SYSTEM*

DELIVERY SYSTEM	1975/1976		1976/1977		1977/1978	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
REGIONAL OCCUPATIONAL CENTERS/PROGRAMS - OTHER	4,418	72.0	4,431	63.2	4,573	57.8
COMMUNITY COLLEGES	1,169	19.1	1,125	16.0	1,897	24.0
ADULT EDUCATION PROGRAMS **	546	8.9	1,459	20.8	1,447	18.3
TOTAL ***	6,133	100	7,015	100	7,917	100
	=====	====	=====	====	=====	====

* Unaudited data.

** These data were provided by the Department of Education. Because of errors found in the data, they cannot be relied upon fully.

*** Programs for handicapped pupils not included in this and subsequent tables (see note, Table 4).

The number of training slots by program area is presented in Table 4 below. The figures indicate an overall annual increase in training slots, with the most substantial growth in the fields of cosmetology and barbering--a reported combined rise of 39 percent from fiscal year 1975-76 to fiscal year 1977-78. This reflects a significant effect of the law authorizing vocational contracting: support through state and local educational apportionments of vocational training programs in these fields, some of which were ineligible for such public financing prior to 1974. Over 5,800 publicly supported training slots in private school cosmetology programs were established during the first four years of contracting.

TABLE 4
TOTAL STATEWIDE
CONTRACTED NUMBER OF TRAINING SLOTS REPORTED IN
PRIVATE VOCATIONAL EDUCATION PROGRAMS
BY PROGRAM AREA *

PROGRAM AREA	1975/1976		1976/1977		1977/1978	
	NUMBER	PERCENT	NUMBER	PERCENT	NUMBER	PERCENT
OFFICE	419	6.8	499	7.1	468	5.9
DISTRIBUTIVE	345	5.6	331	4.7	436	5.5
HEALTH	619	10.1	503	7.2	627	7.9
TECHNICAL	70	1.1	91	1.3	66	0.8
TRADE & INDUSTRY (T&I)	4,680	76.3	5,591	79.7	6,320	79.8
COSMETOLOGY	(4,282)	(69.8)	(5,150)	(73.4)	(5,848)	(73.9)
BARBERING	(156)	(2.5)	(206)	(2.9)	(342)	(4.3)
OTHER T&I	(242)	(3.9)	(235)	(3.3)	(130)	(1.6)
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	N/A **	N/A	N/A	N/A	N/A	N/A
TOTAL	6,133	100	7,015	100	7,917	100

* Unaudited data.

** Data for these programs are not comparable to those for other contracts due to their unique characteristics.

Finally, it is important to note that contracting has been used as a delivery mechanism by only a limited number of local public educational agencies in the State. The total contracts reported during 1977-78 represent involvement by slightly over one-third of the ROC/Ps, one-fifth of the community college districts and less than one-tenth of the adult education programs in the State.

Financing of Contracted
Vocational Education Programs

Revenues to Public Educational Entities

Public educational entities are paid full state and local funding for students receiving training under vocational contracts although contracted vocational education programs generally cost considerably less than is generated by these revenues. Contract costs averaged less than one-third of state and local apportionments--\$.72 per hour versus \$2.55 per hour--during 1977-78. Differences between estimated state and local revenues for contracted vocational programs and the contract costs for these programs are shown in Table 5 on page 16. (Contract costs reflect direct contract payment rates and do not include additional public entity expenses such as costs for program administration or supportive services to students.)

TABLE 5

STATEWIDE COSTS AND ESTIMATED REVENUES *
TO PUBLIC ENTITIES
FOR PRIVATE VOCATIONAL EDUCATION CONTRACTS
BY PROGRAM AREA - 1977/1978**

PROGRAM AREA	NUMBER OF PROGRAMS	AVERAGE PER HOUR ***		
		CONTRACT COST	ESTIMATED REVENUE GENERATED	DIFFERENCE BETWEEN ESTIMATED REVENUE AND COST
OFFICE	11	\$1.21	\$2.65	\$1.45
DISTRIBUTIVE	7	\$1.42	\$1.99	\$0.58
HEALTH	16	\$1.47	\$2.68	\$1.21
TECHNICAL	1	\$1.44	\$2.32	\$0.88
TRADE & INDUSTRY (T&I)				
COSMETOLOGY	120	\$0.62	\$2.54	\$1.92
BARBERING	5	\$0.59	\$2.71	\$2.12
OTHER T&I	3	\$1.24	\$2.69	\$1.45
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	4	N/A	N/A	N/A
ALL PROGRAM AREAS	167	\$0.72	\$2.55	\$1.83

* Estimated revenues are based upon data for combined state and local revenues provided by the Department of Education and the Chancellor's Office of the California Community Colleges.

** Unaudited data.

*** All figures are rounded.

Based upon the data reported to us by the Department of Education and the Chancellor's Office, we estimate that total revenues generated statewide for contracted programs during 1977-78 were approximately \$24 million, of which slightly over \$19 million were associated with cosmetology training. Total costs for contracts were approximately \$6.8 million, of which about \$4.7 million were

for cosmetology programs. Total statewide differences between estimated revenues and costs for contracted programs were approximately \$17.2 million in 1977-78, demonstrating the considerable residual revenues to public educational entities generated through these programs.

TABLE 6 *

STATEWIDE COSTS AND ESTIMATED REVENUES
TO PUBLIC ENTITIES
FOR PRIVATE VOCATIONAL EDUCATION CONTRACTS
BY PROGRAM AREA - 1977/1978 **

PROGRAM AREA	NUMBER OF PROGRAMS	CONTRACT COST	ESTIMATED REVENUE GENERATED	DIFFERENCE BETWEEN ESTIMATED REVENUE AND COST
OFFICE	11	\$429,610	\$943,540	\$513,930
DISTRIBUTIVE	7	\$260,200	\$366,220	\$106,020
HEALTH	16	\$805,140	\$1,470,780	\$665,640
TECHNICAL	1	\$49,900	\$80,390	\$30,490
TRADE & INDUSTRY (T&I)				
COSMETOLOGY	120	\$4,726,030	\$19,319,910	\$14,593,880
BARBERING	5	\$314,530	\$1,439,860	\$1,125,330
OTHER T&I	3	\$171,720	\$372,860	\$201,140
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	4	N/A	N/A	N/A
ALL PROGRAM AREAS	167	\$6,757,130	\$23,993,560	\$17,236,430

* Unaudited data.

** All figures are rounded.

In the field of cosmetology, total estimated revenues per student for pupils who completed the prescribed 1600 hours of training required for licensure* averaged \$4,064 and total costs averaged \$992 during 1977-78, representing residual revenues of over \$3,000 to public entities.**

Public entities in our sample reported residual revenues generated by private vocational contracts were used for a variety of purposes including administrative expenses, supportive services to students (e.g., guidance and counseling) and financing of high cost vocational offerings.

Total costs and estimated revenues generated for vocational contracts by delivery system for 1977-78 are displayed in Table 7. As shown in that table, ROC/P contracts account for over half of the funds in private vocational contracting.

TABLE 7
STATEWIDE COSTS AND ESTIMATED REVENUES
TO PUBLIC ENTITIES
FOR PRIVATE VOCATIONAL EDUCATION CONTRACTS
BY DELIVERY SYSTEM - 1977/1978 ***

DELIVERY SYSTEM	NUMBER OF PROGRAMS	CONTRACT COST	REVENUE GENERATED	DIFFERENCE BETWEEN REVENUE AND COST
REGIONAL OCCUPATIONAL CENTERS/PROGRAMS - OTHER	110	\$3,698,190	\$12,512,510	\$8,814,320
COMMUNITY COLLEGES	38	\$1,946,270	\$8,941,190	\$6,994,920
ADULT EDUCATION PROGRAMS	19	\$1,112,670	\$2,539,860	\$1,427,190
ALL DELIVERY SYSTEMS	167	\$6,757,130	\$23,993,560	\$17,236,430

* Training programs of 1600 hours often may be completed over more than a one-year period.

** Under present financing procedures, public school entities receive full state and local apportionments for contracted programs despite the fact that these revenues exceed contract costs. An alternative funding procedure recently proposed for cosmetology training is the use of direct student assistance grants rather than institutional support formulas for such training (see Assembly Education Subcommittee on Adult and Vocational Education, State-Subsidized Cosmetology Training, AJR 45, 1978).

*** Unaudited data.

Additional Income to Private Schools
from Vocational Contracting

Private schools involved in contracting may generate income not only from tuition but also from sale of required equipment to students and from services to clientele. Equipment needed for participation in various programs may include professional kits, books, and some additional tools and supplies.

We found considerable variation in prices for specific types of equipment. For example, cosmetology kits varied from no cost (i.e., was provided at no charge as specified in the contract) to \$150 in programs visited during the audit. Similarly, equipment fees varied for programs in the same field offered by the same public entity. One community college district had two separate contracts for barbering instruction: one contractor charged students \$324 for a required kit and supplies; the other contractor charged \$493 for practically the same type of items.*

* Existing law does not prescribe limitations on fees charged to students for supplies and equipment. In an opinion (# 6554) regarding the legality of such fees, the Legislative Counsel concluded that:

Section 8092 of the Education Code does not prohibit a private vocational school from charging a person enrolled pursuant to a contract a fee for the purchase or rental of equipment. However, any such fee in excess of a reasonable amount would be considered to be "tuition" within the meaning of that section, and therefore prohibited.

The Legislative Counsel also indicated that:

...although there is no provision of law which requires it, a contract between the public school entity and private vocational school could specify that the fee charged for equipment and materials must be of a certain amount, or that such equipment or materials must be furnished at cost.

It was difficult to obtain accurate data concerning income from services to clientele of private schools maintaining vocational contracts. Many such schools included in the sample were reluctant to provide information on the topic.

CONSTITUTIONALITY OF
VOCATIONAL EDUCATION CONTRACTING

The California Constitution generally prohibits direct appropriation of public funds in support of private schools. As a result, the issue of the constitutionality of vocational contracting between public educational entities and private schools has been raised on a number of occasions.

No court ruling has been made on the specific subject of vocational education contracting. Although the California Association of Schools of Cosmetology filed suit in 1976 after the Sonoma County Counsel held that contracted programs violated the state Constitution, no subsequent action has been taken on the case.*

The Attorney General, asked to render an opinion on this matter several years ago, did not do so (and the request was cancelled) pursuant to a long-standing policy of the Attorney General not to render opinions on matters pending for determination before the courts.

In a case involving a relationship somewhat similar to vocational contracting, a California Court of Appeal in April 1978, rendered a contract between a public educational entity and a private medical school unconstitutional.** Based partially upon this court

* The association filed suit for declaratory relief against Sonoma County, the Department of Education and the State of California.

** Board of Trustees v. Cory (April 10, 1978), 79 Cal. App. 3d 661.

ruling, the Legislative Counsel provided us in early June with the opinion that vocational education contracting is unconstitutional. However, in a ruling issued on June 28, 1978--subsequent to the Legislative Counsel's opinion--a California Court of Appeal judged that the state Constitution does not preclude contracts for driver training authorized under Section 41913 et seq. of the Education Code.* This ruling, in conjunction with the earlier ruling of unconstitutionality in relation to a private medical school contract, leaves a number of issues unresolved in this area. As a result, the Legislative Counsel indicated to us in July that:

Until such time that the California Supreme Court sheds more light on what permissible direct public aid may be given to private schools, if any, pursuant to Section 8 of Article IX of the California Constitution, we must take the position that it is not entirely clear whether Section 8092 of the Education Code is or is not constitutional.

Potential long-term legislative options for dealing with the issue of the constitutionality of private vocational contracting include: (a) amending or repealing the statute authorizing vocational contracting, in order to eliminate the potential constitutional conflict,** or (b) awaiting specific court action concerning this form of contracting between public educational entities and private schools.

* California Teachers Association and Fullerton Secondary Teachers Association vs. Board of Trustees, Cal. App., 4 Civil 19281 (Super. Ct. No. 269617).

** Consistent with the first alternative, proposed amendments to currently pending legislation (Senate Bill 2183, Greene), would revise Education Code Section 8092 to conform with the statutory provisions (i.e., providing for exclusive control and management by the governing board of the school district) governing private contracting for driver training which were judged to be constitutional in the recent case of California Teachers Association and Fullerton Secondary Teachers Organization.

AUDIT RESULTS

NEED FOR IMPROVED LABOR MARKET ASSESSMENTS
AND ASSURANCES OF NO UNNECESSARY DUPLICATION
AS CONDITIONS OF VOCATIONAL CONTRACTING

In our audit as in previous analyses of California's vocational education system generally, misalignment between labor market needs and vocational offerings and unnecessary duplication* between vocational programs provided through various public educational entities were identified as areas in need of attention.

Problems of misalignment are important because they can lead to training in occupational areas which may not offer job opportunities, as demonstrated in a recent Auditor General report.** Problems of duplication are significant because they can lead to inefficient utilization of limited vocational education resources.

State administrative regulations***for contracted programs require (a) labor market needs assessments and (b) assurances of no unnecessary duplication with other offerings available in the region as conditions for vocational education contracting. However, requirements in both these areas have not been administered effectively. We found that:

* Unnecessary duplication is defined by the Education Code as the offering by two local agencies of the same courses having similar prerequisites to the same type of students unless one agency reports that it cannot meet the needs of all students requiring such services.

** Opportunities to Improve Responsiveness of Vocational Education, State of California: Office of the Auditor General, April 1978.

*** California Administrative Code, Title 5, Sections 11542 and 55620.

- Different labor market needs assessment policies have been maintained for contracted programs by the Chancellor's Office of the California Community Colleges and the State Department of Education and for various vocational programs under the Department's jurisdiction (e.g., secondary school programs, ROC/Ps, adult education), and the policies have not been routinely enforced
- Varying and sometimes inadequate procedures for labor market needs assessment have been implemented by local educational agencies
- Unnecessary program duplication has occurred involving contracted programs.

Specific examples of these problems include the following:

- One community college did not conduct assessments of manpower needs and job opportunities prior to contract initiation although community college regulations require such a procedure. The contract approval request cited the fact that the particular private school had been in operation successfully for several years as evidence of manpower needs. This justification was accepted by the Chancellor's Office
- Another community college delegated responsibility for determining labor market needs to its contractors. In the letter request for approval of a new contract (to commence in March 1977), the college cited the private school's past placement records as evidence of the labor market need for this additional contract program. This procedure was accepted by the Chancellor's Office

- One adult education program conducted no determination of manpower needs for its contracted programs. As a general rule, the Department of Education has not required such assessments for approval of adult vocational education contracts, although administrative regulations for contracting do not exempt these programs
- One ROC/P surveyed employers to identify job opportunities. However, this process was of limited utility because it did not determine the extent of training in the same field available through other public and private occupational training programs in the area
- One community college and one ROC/P offered cosmetology to the same target population in one area. The community college maintained three contracted programs as well as an in-house program, although unused capacity in the in-house program was available in 1977-78 sufficient to handle at least one of the contracted programs
- One adult education program established a new contract at the same location (same private contractor) where two ROC/Ps were contracting for the same type of instruction, cosmetology. In this case, both ROC/Ps indicated they could serve the target population within their existing contracts. Regional Adult and Vocational Education Councils (RAVECs) have been established to deal with unnecessary program duplication; however, these procedures were not effective in preventing or resolving the problem.

Such problems are partially due to the facts that (a) while state administrative regulations require local educational entities to perform an assessment of manpower needs and job opportunities prior to initiation of contracts, no standard guidelines have been developed specifying criteria for such assessments or procedures for their performance and (b) problems exist in the operations of the existing RAVEC mechanism (e.g., absence of clear and consistent operating guidelines).

Problems such as these make it difficult or impossible to determine whether a need exists for initiating a particular contracted vocational education program. In the absence of such assurances programs can be established which offer little or no job opportunities or which use vocational education resources to support unnecessary programs.

CONCLUSION

State and local education agencies have not effectively implemented requirements for labor market needs assessments and assurances of no unnecessary duplication as conditions of vocational contracting. Consequently, students may be trained in fields which offer no job opportunities and may subsequently require training in other fields, leading to inefficiency in use of public vocational education resources. The need to improve the targeting and efficiency of vocational education through careful assessment of manpower needs and potential unnecessary program duplication, although an issue of long-standing importance, is heightened by the potential effects of Proposition 13 (the Jarvis-Gann Property Tax Initiative) on financing of public vocational education.

RECOMMENDATION

We recommend that the State Department of Education and the Chancellor's Office of the California Community Colleges establish consistent guidelines for performance of manpower needs assessments and for assurance of no unnecessary duplication of programs as conditions for approval of vocational education contracts. Moreover, the responsible administrative agencies should assure, through periodic review, that these steps are being performed effectively.

BENEFITS

Implementing this recommendation should assist in improving the match between labor market opportunities and training provided to students through private vocational contracting, thereby providing the basis for efficient utilization of vocational education resources devoted to these programs.

DEFICIENCIES IN IMPLEMENTATION OF
CONTRACT COST AND PAYMENT STANDARDS
AND CONTRACT AWARD PROCEDURES

The Education Code requires that certain cost and payment standards and contract award procedures be followed for private vocational education contracts; some of these standards apply broadly to contracts maintained by public educational agencies. However, our site visits indicated that in many cases they have not been implemented by state and local educational agencies administering contracted vocational programs.

The importance of contract fiscal controls may be demonstrated by the facts that (a) vocational education contract costs in the State have grown considerably for some programs over a short period, and (b) substantial variations in contract costs for the same type of instruction have been found both statewide and for individual public entities.

Costs for contracted vocational education programs are presented in Table 8, page 29. As shown there, the average cost of contracts in cosmetology increased from \$.46 to \$.62 per hour between 1975-76 and 1977-78--a growth of 35 percent.

TABLE 8

STATEWIDE RANGE OF COST PER HOUR OF INSTRUCTION
IN PRIVATE VOCATIONAL EDUCATION CONTRACTS, BY PROGRAM AREA*

PROGRAM AREA	1975/1976			1976/1977			1977/1978		
	NUMBER OF PROGRAMS	RANGE OF CONTRACT COST PER HOUR	AVERAGE	NUMBER OF PROGRAMS	RANGE OF CONTRACT COST PER HOUR	AVERAGE	NUMBER OF PROGRAMS	RANGE OF CONTRACT COST PER HOUR	AVERAGE
BUSINESS AND OFFICE	9	\$1.35 \$1.55	\$1.42	14	\$0.75 \$1.70	\$1.32	11	\$0.75 \$1.80	\$1.21
DISTRIBUTIVE	6	\$1.19 \$1.47	\$1.36	6	\$1.25 \$2.19	\$1.42	7	\$1.20 \$2.19	\$1.42
HEALTH	14	\$1.35 \$1.93	\$1.60	15	\$1.28 \$1.88	\$1.69	16	\$1.25 \$1.90	\$1.47
TECHNICAL	1	\$1.13 \$1.13	\$1.13	1	\$1.35 \$1.35	\$1.35	1	\$1.44 \$1.44	\$1.44
TRADE & INDUSTRY (T&I)									
COSMETOLOGY	94	\$0.04 \$1.50	\$0.46	108	\$0.11 \$1.00	\$0.50	120	\$0.35 \$1.00	\$0.62
BARBERING	3	\$0.50 \$0.52	\$0.51	4	\$0.50 \$0.52	\$0.52	5	\$0.59 \$0.60	\$0.59
OTHER T&I	6	\$0.50 \$4.96	\$1.19	5	\$0.60 \$4.96	\$1.29	3	\$0.54 \$1.85	\$1.24
VOCATIONAL SKILLS FOR HANDICAPPED PUPILS	1	\$1.19 \$1.19	N/A	3	\$0.50 \$2.09	N/A	4	\$0.50 \$2.99	N/A
ALL PROGRAM AREAS	134	\$0.04 \$4.96	\$0.61	156	\$0.11 \$4.96	\$0.70	167	\$0.35 \$2.99	\$0.72

* Unaudited data.

Reported cosmetology contract costs per student hour varied statewide from \$.35 to \$1.00 in 1977-78. Contract costs for similar programs within particular regions also varied. For example:

- One ROC/P paid \$791 per student for dental assistance training while a nearby adult education program paid \$1,331 per student for training in the same field. The adult education students were also required to pay an additional \$174 each for a training kit
- Another ROC/P paid \$.45 per hour for cosmetology training to one contractor and \$.75 to another, although the training programs were essentially the same.

Our examination of differences in contract costs indicated that rates varied in relation to types of students involved (e.g., adult, high school). However, even considering this factor and geographical location, costs differed for training programs entailing essentially the same coursework and other preparation.

Examples of specific problems related to cost, payment and contract award procedures identified during our review included the following:

- Competitive bidding has not been required by the Department of Education or the Chancellor's Office for contracted vocational programs even though the Education Code (Sections 39640 and 81640) mandates school districts and community colleges to submit to competitive bidding any contract of this type

exceeding \$8,000* and the state plan for vocational education specifically states that each contract with a private school is to be established through free and open competition. All local agencies we visited had contracts exceeding \$8,000 annual cost. Only one of the agencies utilized competitive bidding practices

- Two instances were found of contractors charging students an extra "enrollment fee" beyond the tuition charged to the public entity. Education Code Section 8092 specifies that students enrolled in contracted programs may not be charged such additional tuition
- Despite a specific Education Code prohibition of payment to contractors which exceeds private tuition rates, one ROC/P was paying a fee exceeding the private school tuition. The contract payment was \$.75 per student hour and the equivalent private school tuition was \$.63. The ROC/P administrator indicated to us that he would reexamine the contract
- In a number of cases, public entities received state apportionments for adult education programs provided through private schools for which no contracts had been approved. This is despite the fact that the Education Code (Sections 8090 and 8092) requires approval by the responsible state agency of a contract between public entities and private schools as a basis for apportionments. In at least one case, a contract program was submitted for approval to the State Department of Education but disapproved and the public entity continued to contract; in other cases, a program was maintained although a contract was not submitted for approval.

* The Legislative Counsel's opinion (#6558) concerning competitive bidding stated that:

A contract for vocational skill training entered into between a school district or a community college district and a private educational institution pursuant to Section 8092 of the Education Code is subject to competitive bidding under state law if the contract price of the vocational skill training to be provided exceeds \$8,000.

- A related problem is the generally unclear distinction between so-called "leasing arrangements" and vocational training contracts. In leasing arrangements, private vocational school facilities are "leased" by public school entities and state apportionments paid without submission of contracts for state approval required. These arrangements are found principally in adult education. The responsible unit within the Department of Education has maintained a policy of not requiring contract approval for these leasing arrangements although (a) they may be similar to contracts and (b) a school district may maintain a contract requiring state approval one year but maintain a "leasing agreement" requiring no approval another year.

The importance of clarifying policy in this area is underscored by the opinion given to us by the Legislative Counsel regarding conditions of payment for contracted programs. In the Legislative Counsel's opinion, a contract approved under the criteria established by Education Code Section 8092 is required for a public school entity to receive apportionments for vocational education instruction in a private school.*

* The Legislative Counsel's opinion (#6557) states:

A public school entity may enter into an agreement with a private school...to assist with the instruction of the public school students at the leased facility without complying with the provisions of Section 8092 of the Education Code. However, in order for the attendance of pupils in courses at the private facility to be credited to the public entity's reported attendance, for purposes of receiving apportionment from the State School Fund, such contract must meet the requirements of Section 8092 of the Education Code.

Reasons for contract cost, payment and award problems cited by various local educational agency staff included an absence of state-level guidelines and a lack of knowledge on their part concerning applicable standards.

CONCLUSION

Because the State Department of Education and the Chancellor's Office of the California Community Colleges have not effectively administered Education Code provisions related to cost, payment and award procedures for vocational contracts, local agencies have selected contractors and negotiated contract terms in numerous different ways, some of which constitute noncompliance with existing legal requirements. Some public entities pay more for the same instructional services than do others, and safeguards which exist to protect the integrity of public funds have not been implemented.

RECOMMENDATION

We recommend that the State Department of Education and the Chancellor's Office of the California Community Colleges ensure adherence to cost, payment and contract award requirements for contracted vocational programs. This should include establishment of guidelines which (a) prescribe competitive bidding practices when required under the Education Code and (b) define alternative contract cost and award procedures (e.g.,

contract costs based upon statewide average private school tuition rates for particular program areas) for special circumstances (e.g., when only one private school exists in the region; when a projected contract amount is less than \$8,000).

BENEFITS

Implementing this recommendation should improve the controls on public funds devoted to vocational education through private contracting.

INCOMPLETE AND INACCURATE ENROLLMENT,
COMPLETION AND JOB PLACEMENT DATA

The State Department of Education and the Chancellor's Office of the California Community Colleges are required by state and federal law to collect data concerning vocational education programs, including private contracted programs, as a basis for program planning and management activities and for evaluating program effectiveness.

However, deficiencies in the data collected to fulfill these requirements make it difficult to address basic questions concerning the efficiency and effectiveness of contracted vocational education programs. For example, in all ten local agencies we visited, (a) data submitted to the State were either inaccurate or inconsistent with other data concerning the same programs and covering the same time period and/or (b) required data were incomplete and had to be obtained from the contractor during our visit.

Examples of deficiencies in enrollment, completion and placement data included:

- One community college's vocational educational reports, submitted to the State to fulfill federal and state requirements, totally omitted statistics for all of its five contracted programs

- Required reports submitted by one school district omitted data for four of its five contracted adult education programs
- One adult education program submitted reports to the State which were inconsistent with contractors' records:

	<u>Enrollments</u>	<u>Completions</u>	<u>Placements</u>
Reported to the State	374	74	51
Contractor's Records	588	214	167

- When we examined the factors accounting for these discrepant data, we found that reports submitted to the State were based on estimates by district personnel which were made without coordination with the adult school administrator who ran the contracted program but was unaware of the reporting requirements.
- Placement data contained a variety of deficiencies which made them of little utility as a measure of program effectiveness. For example, (a) certain data were based on samples of pupils which were not representative of all program completers but rather only the particular group of pupils who responded to a survey questionnaire, and (b) other data were based upon definitions which differed among delivery systems (e.g., the definition of program completer) and therefore could not be meaningfully aggregated or compared.

A variety of factors appear to account for the various deficiencies identified in enrollment, completion and placement data. At the state level, (a) consistent procedures for data have not been established across delivery systems and (b) little or no monitoring of required reporting has been conducted (i.e., based upon our site visit sample). At the local level, our site visits indicated confusion concerning what is to be included in yearly reports; this was attributed by some local staff to numerous past changes in state-level reporting requirements.

CONCLUSION

In the absence of accurate and uniform data concerning contracted vocational programs, it is difficult to (a) develop an information system to support program management, (b) determine the effectiveness of contracted programs as measured by placement of pupils in employment related to training, (c) compare the effectiveness of contracted programs with programs operated directly by public schools in the same fields and (d) make decisions concerning the most significant needs for vocational training and the most productive manner of allocating public funds for such training.

RECOMMENDATION

We recommend that the State Department of Education and the Chancellor's Office of the California Community Colleges improve procedures for reporting program enrollment, completion and job placement data for contracted vocational education programs.

BENEFITS

Implementing this recommendation should improve accountability for vocational education undertaken through private contracting and should provide decision-makers with information needed to judge the merits of this approach to vocational education in comparison with programs provided directly by public educational entities.

ADDITIONAL INFORMATION CONCERNING
PRIVATE VOCATIONAL EDUCATION CONTRACTING
REQUESTED BY THE LEGISLATURE

Enrollment Patterns of Private
Schools Maintaining Contracts

Private schools maintaining contracts with public educational entities frequently have few private tuition-paying students. In the sample of 18 private schools visited during the audit, 12 schools had student bodies comprised of over 90 percent publicly subsidized enrollees; the two schools representing notable exceptions to this pattern had policies limiting publicly subsidized enrollees.

There is no legal requirement limiting payment of apportionments for vocational education contracts to a specified number of enrollees in private school programs. Similarly, there is no provision to prevent students who were previously tuition-paying from enrolling as public entity students once a contract has been negotiated and from continuing their education at public expense pursuant to the contract. Finally, there is nothing to prevent private school personnel from suggesting enrollment in the public school entity (and public subsidy of training) to persons who seek to enroll in training at the private school. During our site visits, such occurrences were reported.

It is also important to note that publicly subsidized enrollments are not supported simply through vocational education contracts established pursuant to Education Code Section 8092. Other sources of public support include such federal student assistance programs as Basic Educational Opportunity Grants and Supplemental Educational Opportunity Grants, and Veteran's Administration and Vocational Rehabilitation funding.

Differences Between Contracted Programs
and Public School Vocational Programs

A principal difference between contracted vocational programs and programs provided directly by public schools is the substantially higher cost of the latter. Reported factors affecting costs include:

- Public school teachers' salaries are generally higher than those of private vocational school teachers. For example, at one community college in our sample which maintained both its own in-house program and a contracted program salaries for community college teachers were approximately \$8.64 per hour in comparison with approximately \$4.03 per hour for private school teachers
- Private schools frequently provide and charge for a range of services to clientele (e.g., hair styling) which offset training costs and are less extensive in public schools.

Other studies cite the following savings to public schools which result from using contractual arrangements with private schools for vocational training:

- No capital outlay and start-up costs for establishing new public school programs when established private schools are utilized
- Public school entities do not have to support such costs as faculty fringe benefits, and indirect instructional costs are decreased.

Additional differences cited between contracted and public school programs include:

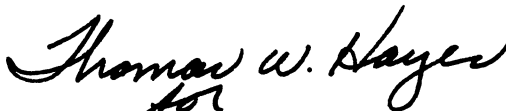
- Private school programs provide opportunities for public schools to expand programmatic offerings with flexibility to dissolve programs should the job market no longer exist
- Private schools must show 50 percent placement for graduates over a two-year period in order to be initially approved and remain qualified to enroll Veteran's Administration students; public schools are not required to do so*
- Public school faculty tend to have more formal academic training than do teachers in private schools.

* Due to limitations in available data, we did not determine placement rates for comparable public school vocational programs in California.

Types of Supportive Services Provided
as Part of Contracted Programs

Most contractors interviewed during our site visits indicated they provided some guidance, counseling and placement services for all students whether or not these were explicitly specified in their contract. This was verified by interviews with students, but neither a comprehensive review of these services nor a detailed comparison of them with services provided in programs maintained directly by public schools was within the scope of this audit.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Date: August 8, 1978

Staff: Joan S. Bissell, Supervising Auditor
Steven L. Schutte
William S. Aldrich
Edwin H. Shepherd
Lucy Chin, Secretary



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

August 7, 1978

Mr. John H. Williams, Auditor General
Joint Legislative Audit Committee
925 "L" Street, Suite 750
Sacramento, California 95814

Dear Mr. Williams:

We have received and reviewed the August 2 draft report from the Office of the Auditor General entitled "Contracting Between Public School Entities and Private Vocational Schools Needs Improvement." In our response to this draft, we are providing general comments on the issue of contracting with private agencies, in addition to commenting on the report as a whole and addressing the three major recommendations contained in the report. We support the concept of allowing public school entities to contract with private vocational schools in order to provide vocational education opportunities to all students. This opportunity allows utilization of existing facilities and equipment for one or many students. Until the constitutionality of this issue is resolved to preclude such contracts, we will continue to urge public school entities to use existing facilities and services as appropriate under existing laws and policies to meet the educational needs of their students.

We have found several omissions in the report which cause us to question the inferences drawn within it. Throughout the report, statistics are cited (cost, growth rate, number of training slots, etc.) as significant data; yet no comparative information is provided. It would be helpful to know the statistics for those activities both before and after the 1973 legislation allowing contracts; it would be helpful to know the growth rates for more than one instructional program area; and it would be helpful if the same three year period (1975-6 through 1977-8) was used for all statistics. Such comparative information would indicate the significance of the statistics cited.

Another omission is the provision of separate data for each of the three public delivery systems investigated - adult education, community college, and regional occupation center/program. Since each of these delivery systems has a different revenue limit, the estimated state and local apportionments generated for students receiving training under vocational contracts will be different for each of the delivery systems. The report stresses the difference between income and cost to public school entities involved in contracting; such a breakout would indicate the true difference by delivery system. Although such a breakout is provided in Table 7 on page 18, the information used in the narrative is an average across delivery systems. The separate information is necessary because, as the report

indicates on page 18, public entities must provide administration, guidance, counseling, transportation, etc., when contracts provide educational training. These costs vary with each delivery system, as well as do the characteristics of the clients served, and must be taken into consideration when inferring an income higher than contract cost.

Another point that should be stressed when discussing the difference between income and cost to public school entities is also referenced on page 18. We feel more attention should be given to the common practice in school finance of supporting high cost vocational programs with excess income from low cost programs. This principle of income averaging should be discussed in the report; it strengthens the need to have comparative data available separating type of instructional program by delivery system. These figures are necessary in portraying the entire picture of financing a delivery system's program.

One other desirable clarification is that when discussing public funds subsidizing students trained via contracts, it would be helpful to indicate the source of those public monies - whether it is state and local apportionment only, or whether it includes the other sources of public funds mentioned on page 40. The relative importance of all figures is affected by whether the narrow or broad definition of public support is intended.

We would now like to address each of the three recommendations. The report raises the question of whether these recommendations were intended to apply to only those vocational programs offered through contracts, or whether all vocational programs offered by public school entities are considered when the recommendations are made. As a general principle, we do not support separate procedures and standards for programs offered through contracts different from non-contract programs.

Recommendation 1: The State Department of Education and Chancellor's Office establish and ensure implementation of consistent guidelines for performance of manpower needs assessments and for assurance of no unnecessary program duplication as conditions for approval of vocational education contracts.

Currently, there exist requirements for labor market needs assessment in Vocational Education Administration (VEA) and ROC/P programs. Pending state legislation (SB 2183) would extend to adult vocational programs administered by unified/union districts the requirement for conducting job market surveys. Although the implementation of the NOICC (National Occupational Information Coordinating Council) including the California component is well underway, the funding for the COIS (California Occupational Information System) has been deleted from AB 2020, which will certainly hamper implementation of this system. With or without funding, any labor market needs assessment that emphasizes only demand (availability of jobs) without also considering supply (number of already trained persons) will not provide an accurate basis for determining appropriate levels and amount of training needed.

The report does not indicate whether the state is to impose uniform labor market needs assessment data procedures to be followed by all local educational agencies. It also does not indicate what the minimum standards for acceptable labor market needs assessments should be. The need exists for clearer public policy as to the minimum standards in needs assessment, and we look to the Legislature for support.

August 7, 1978

Also contained within this recommendation is the need to ensure no unnecessary program duplication before the state contracts for a course. The Regional Adult and Vocational Education Councils, which operated 1976-77 and 1977-78, were a major effort to assure no unnecessary duplication with other offerings available in the region as conditions for vocational education contracting. However, there is no state funding to support these RAVE Councils in 1978-79 and thus no funded mechanism available locally to determine unnecessary duplication. There is currently no decision about an alternative to the RAVE Council.

Recommendation 2: The State Department of Education and Chancellor's Office implement fully cost, payment, and contract award guidelines for contracted vocational programs.

We agree that there are certain cost and payment standards and contract award procedures which apply to contracts for vocational training. We are reviewing our procedures to ensure that these standards and procedures are followed.


However, a larger question is raised by the discussion of this recommendation where it is proposed that contract costs be based upon statewide average private school tuition rates for a particular program area. The inference of this discussion and the statement that "substantial variations in contract costs for the same type of instruction have been found both statewide and for individual public entities" are to lead one to advocate a market maximum. It would be noted that the establishment of statewide payment standards, program by program, negates the concept of contract negotiation. We have not encouraged competitive bidding for instructional programs because our interpretation of E.C. section 39640 was that it applied to construction, not instruction.

Recommendation 3: The State Department of Education and Chancellor's Office improve procedures for reporting program enrollment, completion, and job placement data for contracted vocational education programs.

We agree that more accurate enrollment, completion, and placement data would be useful in program planning and for the counseling of students. However, our experience has been that it has been difficult to gather such information and we encourage additional study as to the best procedures to obtain this information.

In conclusion, we wish to restate our support and endorsement of having the ability to contract with private postsecondary institutions in order to provide vocational education opportunities to all students. This opportunity allows utilization of existing facilities and equipment for one or many students. We support the recommendations contained within the Auditor General's report, realizing that a greater degree of control over contracting is necessary. Contracting is a highly sensitive area, involving many different agencies. Legislative support is needed to establish clear public policy.

Sincerely,



William D. Whiteneck
Deputy Superintendent for Administration

CALIFORNIA COMMUNITY COLLEGES

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August 7, 1978

John H. Williams
Auditor General
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, CA 95814

Dear John:

I have read the draft report "Contracting Between Public School Entities and Private Vocational Schools Needs Improvement," dated August 1978, and I find that it is well done, although not totally complete. The audit team has identified many of the same problems and concerns involved in contracted instruction of vocational education which have concerned us.

In reference to the three report recommendations, we have the following comments:

1. In referring to the need for improved manpower needs assessment, the Chancellor's Office, along with the State Department of Education and Employment Development Department are working together on COIS (California Occupational Information System) to establish manpower needs in various areas throughout the state. In addition, the colleges should be making a study of local needs which would be shown on the college's request for program approval. No contract will be approved unless the program is approved.

In regard to unnecessary duplication, this has been handled through the program approval process in this office. Recent legislative action has resulted in virtual elimination of Regional Adult and Vocational Education Councils due to withdrawal of state funding. A primary responsibility of these councils was to prevent unnecessary duplication. This office intends to implement whatever procedures are required to carry out the necessary program duplication review.

2. I agree with the recommendation that colleges should implement fully cost, payment and contract award requirements for contracted vocational programs. This would include guidelines for competitive bidding and alternative contract cost and award procedures. While there is a difference of opinion between our Legal Counsel and the Legislative Counsel regarding the mandation of competitive bidding (Education Code 81640), we agree that there should be some kind of competition involved in the letting of the contract. In fact, "The California Five-Year State Plan for Vocational Education" (Section 3.7) requires: Each contract shall be established through free and open competition... In

conjunction with the above, the Chancellor's Office is preparing to review and recommend revisions in the Administrative Code, Title 5, Sections 55600-55630.

3. I agree with the audit team's recommendation that improvement is needed in the reporting of enrollment, completion and job placement in vocational education contracts and we are presently preparing a format for the year-end report which will include enrollments, completion and job placement data for all contracted instructional programs. This will separate this information from that collected for all vocational programs and provide management information on this type of delivery system.

In addition, we would like to comment on other significant parts of the report:

1. In the summary, the audit team indicates "a significant effect of the contracting law has been to support through state and local educational apportionments vocational training programs in this field which were ineligible for such public financing prior to 1974." We would like to point out that vocational education programs in cosmetology and other fields were supported prior to 1974 both on campuses and through contracts. It would be more accurate to indicate that some*programs were ineligible prior to the change in the law.

2. We feel that long term solution to the question of constitutionality of vocational education contracting is necessary and we are supporting Legislature's attempts in this regard as indicated in proposed amendments to SB 2183.

3. We have a serious concern with the fact that the report makes a specific point relative to residual costs, however, no comparison is made of the cost to provide this training in a public institution. There is also no reference made to the costs of operating the program in addition to the direct payments to the private schools. This lack of cost comparison and additional cost information could well lead to an erroneous conclusion on the part of those to whom this report will be released.

4. We also have a concern with the percentage of publicly supported students in relation to non-public supported students enrolled in private schools. In this regard, we are in the process of reviewing Title 5 regulations in order to recommend changes limiting the percentage of publicly supported students.

We appreciate the opportunity to comment on the draft report and I will be happy to respond to any questions which you may have.

Sincerely,



William G. Craig
Chancellor

WGC/mh

AUDITOR GENERAL COMMENTS
CONCERNING AGENCY RESPONSES

The Department of Education referred in several instances in its response to statistical data which were not included within the Auditor General's report. However, one of the principal findings of our review concerned shortcomings in required data. The report indicates clearly that unreliable, inaccurate and/or inconsistent data prevented development of statewide data on several topics (pages 6-7) and identifies limitations in other data when pertinent (pages 11, 13, 14, 15, 35-37, 41). All major data sources which were used in the report were verified by the administering agencies and substantiated through field reviews.

It is also important to note that while the agencies suggest the need for a number of types of comparative data, it is generally limitations in the state-level administrative agencies' information systems which preclude presentation of extensive information of this nature. Where comparative data were available, the patterns reflected in these data were confirmed through a variety of sources, and reliable data were fully presented in the report. Only the Chancellor's Office of the California Community Colleges indicated particular actions to be undertaken to improve its current management information system.

The Department of Education's response states that the Auditor General's report does not specify the procedures and standards which might be used for the performance of labor market needs assessments for contracted vocational education programs. Consistent with the requirement of the Education Code (Section 8092) that the administering agencies adopt rules and regulations for approving contracted vocational programs, the Auditor General believes it is the responsibility of the Department (as well as the Chancellor's Office) to establish and implement specific procedures such as these.

Both agencies' responses indicate that (a) they are presently reviewing management procedures to ensure that cost, payment and contract award standards for contracted vocational programs are followed and (b) they agree that more accurate enrollment, completion and placement data are needed. In accordance with Joint Legislative Audit Committee policy, the agencies are to advise the Legislature within sixty days of the status of their implementation of our report's recommendations. This procedure will enable the Auditor General to review the specific actions the agencies have taken to address these issues which they agree warrant attention.

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
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