Fairfax County Public Schools
Internal Audit Office

Financial Issues Facing the Office of Adult and Community Education

October 2006

"promoting an efficient & effective school division"

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Executive Summary

The Fairfax County Public Schools (FCPS) Office of Adult and Community Education (ACE) delivers a broad range of services to the community. It also devotes an extensive amount of administrative support to Summer School and the After School Remediation Program.

A third quarter budget transfer of $500,000 from the operating fund was provided in Fiscal Year 2006. This infusion prompted questions from management as to what options existed to place ACE on a more secure footing designed to provide for consistently self sufficient financial performance. Our review resulted in areas for management consideration. These areas, listed below, are explained in further detail in both the discussion and final summary sections of this document.

We recommend that management consider the following:

- Reassessment of programs to adapt to changing community needs
- Inclusion of only direct recipients of ACE services in enrollment figures to more accurately reflect enrollment
- Implementation of a standardized overhead allocation methodology to promote year-to-year continuity in program business practices
- Development of a consistent, systematic breakeven calculation methodology to help minimize deficits
- Increase ACE access to school facilities to meet community demands for classes requiring kitchen and shop environments
- Review of tuition levels, standardizing instructor pay, minimizing overtime payments to temporary employees, and increasing in volunteer instructor usage to obtain program self-sufficiency
- Consideration of distance learning opportunities to expand enrollment base
- Implementation of on-line registration for adult education and, to supplement printed material distribution, consider increasing the electronic distribution of materials for a possible reduction of associated administrative costs
- Modification of the funding source for areas of ACE where both FCPS and ACE programs are served

Background

The Office of Adult and Community Education has a history of providing a high volume of programs to serve the needs of Fairfax County residents as well as providing support services to several FCPS objectives. Over time there have been changes in the demographics of County residents and the development of private competition for many of the services that ACE offers. These have created challenges for ACE while pursuing its financial management objectives. In FY 2006 a third quarter budget transfer of $500,000 was necessary to increase funding availability that would ensure the solvency of ACE. The purpose of this report is to identify the challenges surrounding ACE's pursuit of financial self sufficiency, to propose possible means to address them, and to provide an overview of the prominent ACE programs.

Scope and Objectives

This review was performed at the request of the Assistant Superintendent for Instructional Services and encompassed a detailed review of FCPS' approach to establishing and operating adult and community education programs with the goal of ensuring financial self sufficiency. Tuition revenues should cover program costs unless there are clear policy determinations to provide subsidies. Our review consisted of the following:

- An analysis of ACE related budget and accounting documents
- An identification of trends for the previous five years
- A review of the ACE Advisory Committee annual reports
- An examination of course catalogs and brochures
- An analysis of the courses offered in the Winter term of 2006(running from January-June 2006)
- Interviews of ACE management and program specialists
- Discussions of changing consumer demands and external competition to ACE services
- A break-even analysis for major programs
- A benchmarking analysis to compare ACE's tuition rates and pay practices to those at NOVA, Arlington County, Chesterfield County, Henrico County, and Montgomery County, Maryland
- An evaluation of the formulas used to calculate class breakeven enrollment levels, overhead, and operating fund subsidies
- A review to determine whether expenditures charged to ACE should reflected in the operating fund (or the portion of the grants and self-supporting programs fund subsidized by the operating fund) or vice versa

Discussion

The American public's education needs center around a lifelong learning process, thus traditional K-12 programs leave a gap that must be filled. The United States Census Bureau periodically gathers data on post-secondary education activities for those who are not enrolled as full-time students in post-secondary degree, certificate, or diploma programs. For the 2000-01 year, there were 92,278,000 people who enrolled in adult education courses. This constituted 46% of the total adult population. Work related courses were taken by 30% of adults, while 21% participated in personal interest courses. Enrollment rates also varied substantially by income, households with incomes over $75,000, 59% of adults pursued educational opportunities, while only 28% from households with incomes below $20,000 did so.

It is difficult to get accurate data on the adult participation rate in education within Fairfax County, since the Census Bureau definition would encompass people who took single classes in colleges, private companies, or the County recreation programs in addition to those enrolled in the programs offered by the Office of Adult and Community Education (ACE). The number of different adults who enroll in ACE programs is about 40,000 per year, or roughly 5% of Fairfax County's adult population.

Enrollment Trends in ACE

The following chart outlines ACE enrollment trends over the last five years. All figures were taken from the ACE 2001 through 2005 Annual Reports and were not verified during the course of our review.

Adult and Community Education Five Year Enrollment Trends by Program

	Program Enrollment *(see note below)*					
Program	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**% Change**
General Community Programs						
Career and Life Enrichment						
Apprenticeship	1,274	1,589	2,088	2,237	2,408	89.0
Trades and Industry	1,573	1,839	1,887	2,378	2,198	39.7
Business and Computers	10,414	8,944	8,309	8,673	7,809	(25.0)
Health and Medical	0	0	0	1,153	1,240	NA
Life Enrichment	2,427	3,161	2,987	3,277	2,734	12.6
Art Education	2,910	2,822	2,332	2,370	2,338	(19.7)
Foreign and Sign Language	4,983	4,902	4,727	4,654	4,614	(7.4)
Foreign Language Experience Program	3,227	3,005	3,353	3,440	3,005	(6.9)
Parenting Education	892	127	152	43	0	(100.0)
Mini Courses/Kids and Teens	4,582	4,345	4,725	4,603	4,253	(7.2)
Customized Workplace Training	2,266	2,114	1,385	1,662	1,568	(30.8)
Jefferson Admission Test Preparation	0	0	0	935	1,286	NA
Career and Life Enrichment Program Totals	**34,548**	**32,848**	**31,945**	**35,425**	**33,453**	**(3.2)**
English as a Second Language						
Classes	11,078	10,902	10,509	10,383	10,201	(7.9)
ESOL Contracts	260	295	204	222	295	13.5
ESOL Discover America	7	12	0	0	0	(100.0)
Language Assessment Services	0	0	815	512	438	NA
ESOL Community Volunteer Teacher Training	0	460	144	114	170	NA
ESOL Community Students(estimated)	0	830	2,185	3,199	4,770	NA
ESOL Institute for Experienced Practitioners	0	0	0	300	0	NA
English as a Second Language Program Totals	**11,345**	**12,499**	**13,857**	**14,730**	**15,874**	**39.9**
Driver Education Program Totals	**3,980**	**4,757**	**3,965**	**4,365**	**3,602**	**(9.5)**
Support Services						
CAT Lab(Computers and Tutors)	0	0	1,750	1,700	1,800	NA
Education for Independence	165	162	120	56	86	(47.9)
Certificate Programs	317	356	275	276	299	(5.7)
Educational/Career Transition Assistance	2,470	2,845	2,936	3,002	3,106	25.7
New General/Volunteer Program	11	61	70	77	0	(100.0)
Gift Certificates	0	0	0	0	48	NA
Support Services Program Totals	**2,963**	**3,424**	**5,151**	**5,111**	**5,339**	**80.2**
TOTALS, GENERAL COMMUNITY PROGRAMS	**52,836**	**53,528**	**54,918**	**59,631**	**58,268**	**10.3**

Adult and Community Education Five Year Enrollment Trends by Program (continued)

Program	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	% Change
	Program Enrollment *(see note below)*					
Academic Programs						
Adult High School Completion						
Adult HS/Writing Group	1,108	830	721	624	554	(50.0)
External Diploma Program	176	139	138	115	96	(45.5)
Learning Centers	1,056	988	793	1,165	1,011	(4.3)
ABE/GED	1,270	1,197	1,078	1,174	1,052	(17.2)
Virginia Literacy Passport Test	95	107	102	0	0	(100.0)
Continuing Enrollment EDP	94	190	147	34	170	80.9
Detention Centers	608	967	566	692	588	(3.3)
New Stepstar Viewers	3,000	0	0	0	0	(100.0)
Volunteer Learners	0	0	0	173	166	NA
Adult High School Completion Program Totals	**7,407**	**4,418**	**3,545**	**3,977**	**3,637**	**(50.9)**
Summer School/Extended Day Programs						
Summer(previous year, i.e., summer 2000 for FY 01)	14,632	19,654	21,614	24,341	22,162	51.5
Summer Camps and institutes	0	0	0	0	5,009	NA
Extended Day Remediation	6,577	6,919	2,784	3,431	1,954	(70.3)
Summer School/Extended Day Program Totals	**21,209**	**26,573**	**24,398**	**27,772**	**29,125**	**37.3**
TOTALS ACADEMIC PROGRAMS	**28,616**	**30,991**	**27,943**	**31,749**	**32,762**	**14.5**
GRAND TOTALS ALL PROGRAMS	**81,452**	**84,519**	**82,861**	**91,380**	**91,030**	**11.8**

Source: FCPS Office of Adult and Community Education, Annual Reports for 2001 to 2005
Note: Internal audit did not verify the accuracy of the enrollment figures listed in the annual reports.

Based on the enrollment figures presented, enrollment has risen from 81,452 to 91,030, or 11.8%, over the last five years. This figure includes summer school and extended day programs enrollment for which ACE manages the registration process. Overall, the enrollment for summer school and extended day programs rose from 21,209 to 29,125 or 37.3% over the same period. The patterns among specific programs have varied widely. Academic programs for pre K-12 students have experienced a growth rate of 14.5%, compared to 10.3% for general community offerings.

A number of specific areas experienced dramatic recent growth: Apprenticeship up 89%; Summer School up 51.5%; and Trades and Industry up 40%. The booming construction business in the Northern Virginia region has stimulated job growth in the areas supported by the apprenticeship and trades and industry programs. In addition, summer school participation has risen steadily from year to year as the need for SOL remediation has intensified. The additional grades being added to the annual testing process could cause a more rapid enrollment growth in the near future.
A number of programs experienced significant declines in enrollment in recent years: Customized Workplace Training down 30.8%; Business and Computers down 25%; Art down 19.7%; Adult High School Completion (ignoring New Stepstar Viewers) down 17.5%; Driver Education down 9.5%; ESOL tuition-paying classes down 7.9%; and

Foreign and Sign Language down 7.4%. The growth of competitors to ACE's offerings has contributed to the decline in customized workplace training, driver education, art, foreign and sign language, and business and computer courses. In addition, the steep rise in real estate prices in recent years has motivated a number of recent immigrants to migrate to outlying counties, decreasing the demand for the ESOL classes, particularly in certain areas of the county.

The changing landscape of external competition and evolving community demographics create a need to systematically review programs that show a multi-year trend of declining enrollment in order to ensure that the program services are compatible with current constituent demand. In order to promote sound financial management practices and to accurately assess trends, a well-defined enrollment process should be implemented. An enrollment total of 91,030 is shown in the Adult and Community Education Advisory Committee's FY 2005 Annual Report. This includes an estimated figure of 4,770 representing the number of people believed to receive instruction from classes operated independently by graduates of ACE's Community Volunteer Teacher Training. It is commendable that ACE has developed a means of community synergy by utilizing this "train the trainer" approach. However, since the 4,770 students are not really part of the ACE program, they should not be reported as part of the official annual ACE enrollment statistics. A narrative reference to these students in the annual report would inform interested parties of this accomplishment. Similarly, the purchase of gift certificates results in a boost to revenues but the certificates themselves do not constitute enrollment and should be excluded from the official enrollment statistics. As recipients of the certificates use them to enroll in classes, they will be included in the enrollment data. Support services listed in the annual report, while important, generally produce immaterial levels of tuition revenue and should be viewed independently of other types of enrollment.

The previous data presented was based on total course enrollment and thus a student enrolling in three courses was counted as three enrollees. The chart below shows the trends among unique participants, in other words, a person (whether adult or child) enrolled in three courses during the same year would be counted as just one enrollment:

Enrollment Trends for Adult and Community Education

Term	General Interest Courses		Academic Courses		Combined Enrollment
	Number of Zip Codes	Enrollment	Number of Zip Codes	Enrollment	
Fall 2002	319	17,388	information not available		
Winter 2003	208	12,859	48	2,406	15,265
Summer 2003	189	12,445	93	19,341	31,786
Fall 2003	307	18,250	54	933	19,183
Winter 2004	213	14,434	44	3,095	17,529
Summer 2004	190	12,966	97	19,757	32,723
Fall 2004	282	17,399	54	1,833	19,232
Winter 2005	220	12,719	36	1,090	13,809
Summer 2005	219	11,254	102	21,441	32,695

Enrollment Trends for Adult and Community Education (continued)

Term	General Interest Courses: Number of Zip Codes	General Interest Courses: Enrollment	Academic Courses: Number of Zip Codes	Academic Courses: Enrollment	Combined Enrollment
Fall 2005	290	16,329	62	1,168	17,497
Winter 2006	204	10,681	42	3,163	13,844
Percent Change in Enrollment, Fall 2002 to Fall 2005 (or 2003 to 2005)		(6.09)		25.19	(8.79)
Percent Change in Enrollment, Winter 2003 to Winter 2006		(16.94)		31.46	(9.31)
Percent Change in Enrollment, Summer 2003 to Summer 2005		(9.57)		10.86	2.86
Average change in enrollment for the period		(10.87)		22.50	(5.08)

Source: On-Course data base, FCPS Office of Adult and Community Education

Note: Internal audit did not verify the accuracy of the enrollment figures listed.

As shown, ACE operates on a three term schedule, with courses offered each winter, summer, and fall. The table revealed that the number of participants in general interest courses has been declining, while the academic courses have shown steady growth. In 2003-04, a total of 69,484 persons participated in ACE programs, while 65,736 people participated in 2004-05. Since 2002-03, the general interest courses have experienced an average decline of 10.87% while the academic courses experienced an average increase of 22.50% in enrollment.

Program Financial Performance

As the challenges of attracting sufficient quantities of customers to general interest programs have intensified in recent years, it has been difficult to ensure the financial self sufficiency of each program. The financial results for ACE programs for fiscal year ended June 30, 2005, are depicted in the following table:

Program	Surplus (Deficit)	Program	Surplus (Deficit)
Apprenticeship	$194,424	Group Contract Training/Business	($29,176)
Computer Training	$45,117	Foreign Language Experience (FLEX)	($25,933)
Trade and Industry	$42,911	Group Contract Training/FCPS/County	($40,898)
Business Education	$8,813	Foreign/Sign Language	$42,037
Health and Medical	$58,141	Group Contract Training/ESL	($31,140)
ESL Basic Education	$333,430	Home & Personal Improvement	($75,565)
ESL Tuition Program	($213,509)	TJ Admission Test Prep, Central Sites	$78,331
Driver Improvement	($53,106)	TJ Admission Test Prep, Underrepresented Sites	$46,788
Driver Education	($71,911)	ACE Secondary Enrichment	$21,503
Art Education	($27,584)	ACE Elementary Enrichment	($184,029)

It is clear that while some programs perform well, others struggle financially. The net result of all program performance was a surplus of $48,865. However, the ACE fund had additional non-program related expenditures totaling $711,152, resulting in an overall deficit of $662,287. The fact that this material expenditure level was unallocated to the programs is undesirable. ACE relies on three primary sources of revenue: tuition, grants, and subsidies from the FCPS operating fund (subsidies for which the ultimate source of funding is the operating fund, but the direct fund charged is the Grants and Self-Supporting Programs Fund). To the extent that grants and operating subsidies do not cover a given expenditure, financial self sufficiency rests on the ability of tuition revenue to cover it. In addition, if an expenditure is not charged to a program, the rate-setting strategies for tuition will not factor in the expenditure and a revenue shortfall will be likely.

Analysis of Program Enrollment

A comprehensive analysis was conducted to analyze enrollment, by class, in each ACE course offered for the 2006 winter term, classes occurring between January and June 2006. The number of course offerings by program was calculated, as well as the enrollment capacity (number of courses offered multiplied by maximum permissible enrollment per course), the actual enrollment, the number of persons placed on a wait list, the number of course offerings cancelled, the number of classes run below the designated minimum enrollment level, the average revenue generated per student, the average students per course offering, and the total program revenue. The results are listed in the table below:

Summary of Program Enrollment for the First Term of Calendar Year 2006

(Data Reflects Activity Through May 8, 2006, one of the term's courses starts later)

Program	Courses Offered	Capacity	Actual Enrollment	Actual as a % of Capacity	Persons on Wait List	Classes Cancelled	Classes Below Minimum	Average Revenue per Student	Average Students per Course	Total Program Revenue
Apprenticeship	10	244	93	38.1	0	0	0	542	9.3	$ 50,398
Business Education	52	1,211	651	53.8	4	7	7	84	12.5	54,771
Business Information Technology Management	14	295	77	26.1	0	1	4	113	5.5	8,691
Human Resources Certificate Program	5	125	56	44.8	0	0	0	88	11.2	4,954
Other Business Education	40	753	256	34.0	0	11	5	65	10.2	16,694
Professional Services & Licensing	4	85	25	29.4	0	2	0	184	6.3	4,595
Computer Training and Technology	176	2,414	1,122	46.5	8	35	26	164	6.4	184,433
Mathematics	7	105	0	0	0	7	0	0	0	0
English	8	150	55	36.7	0	2	3	256	6.9	14,098
Health and Medical	61	1,021	387	37.9	0	13	13	254	6.3	98,207
Professional Development	10	134	46	34.3	0	1	1	85	4.6	3,918
Trade and Industry	45	590	320	54.2	0	6	3	199	7.1	63,727
Art Education	94	1,131	588	52.0	0	18	8	138	6.3	81,284
Foreign Languages	181	3,657	1,542	42.2	0	30	15	159	8.5	245,472
Home and Personal Improvement	98	1,158	660	57.0	0	24	8	65	6.7	43,026
Home Improvement	42	640	299	46.7	0	7	8	108	7.1	32,210
Personal Development	39	479	238	49.7	0	15	3	79	6.1	18,778
Elementary Enrichment	54	1,080	30	2.8	0	50	1	136	0.6	4,089
Secondary Enrichment	82	1,640	514	31.3	0	41	1	158	6.3	81,340
GED	17	451	334	74.1	0	0	0	34	19.6	11,490
ESOL	198	7,288	2,984	40.9	0	26	7	308	15.1	919,755
Totals	**1,237**	**24,651**	**10,277**	**41.7**	**12**	**296**	**113**	**189**	**8.3**	**$1,941,930**

Source: On-Course Database, Adult and Community Education

Note: Internal audit did not verify the accuracy of the figures.

In summary, there were 1,237 course offerings with an enrollment capacity of 24,651. However, actual enrollment was 10,277 or 41.7% of capacity. The number of persons placed on a wait list was negligible. A total of 296 or 23.9% of the classes were cancelled. In addition, 113 classes were conducted with enrollments below the minimum required as listed on the On-Course file. In nearly all cases, minimum enrollment was set at 6 students and not calculated based upon a breakeven methodology. The breakeven analysis, discussed later in this report, revealed that the actual breakeven enrollment level for many courses was much higher than 6. Therefore, the actual number of courses operating below the minimum enrollment level necessary to break even was greater than the figure of 113 shown in the chart.

Although revenue varied dramatically among the programs, the average revenue generated per student was $189 and the total program revenue was $1,941,930. As expected, the programs that were listed as slightly profitable earlier in this report tended to have high rates of actual enrollment as a percent of capacity, low rates of class cancellations and offerings below minimum desired enrollment levels, and high average revenue per student, as well as a high average number of students per course offering. For example, the Apprenticeship program had a surplus of $194,424 in FY 2005. According to this table, no classes were cancelled, a high level of per student revenue was recognized, and the program had an above average number of students per class offering. Similarly, Trade and Industry, a program that generated a surplus of $42,911 in 2005, showed relatively few class cancellations, an enrollment level at 54% of capacity, and an above average level of revenue per student. These programs have an inherent advantage over a number of other programs because they tend to have lengthy course offerings. A course that runs for 100 hours tends to achieve financial self-sufficiency somewhat more easily than one with typical course lengths below 10 hours.

The programs that lost money in 2005 fared poorly on the statistics for the winter 2006 enrollment. For example, the Elementary Enrichment program lost $184,029 in 2005. In winter 2006, this program saw 50 of its 54 course offerings cancelled and a total enrollment of 30 students, or less than 3% of capacity. The average revenue of $79 per student was also low.

Enhancing the Financial Prospects of ACE Programs

There are a number of practices that could be applied to raise the likelihood that a given program will achieve self-sufficiency:

1. The incentive features of instructor pay formulas can play a role. ACE has offered a higher rate of pay to instructors who teach multiple courses per term. This can have an unintended consequence, however, by encouraging instructors to create new course offerings that are very similar to ones already being taught. The proliferation of courses, in turn, spreads the existing customer base thin, resulting in low enrollments per class and a high number of class cancellations. An analysis was conducted of a sample of three ACE instructors. One instructor taught 78 students in three classes, another taught 51 in two classes, and a third taught 66 in 8 classes. The cost per student hour for instructor pay was 56% higher for the teacher who

taught 8 classes than it was for the one who taught two. ACE management has indicated that the FY 2007 instructor pay formula will not have an incentive feature based on the number of courses taught.

2. When the class cancellation rate for a given program is very high, it may be a sign that the curriculum is out of step with consumer demand. For example, the Elementary Enrichment program saw 50 of its 54 course offerings cancelled in the winter 2006 term. A review of the On-course data base revealed that cancellation rates have been high in prior years as well, while the course offerings have been relatively unchanged. This program needs to be reexamined to determine whether it should be discontinued or reconfigured in order to meet an identified customer demand. Perhaps surveys of parents with children in elementary school could be used to determine what ACE programs would be desired.

3. Where many classes are run below the targeted minimum size, consideration can be given toward reducing the total number of course offerings and/or targeting the geographic sites where the classes are in greatest demand. ACE program managers report that they use this strategy frequently, but the data indicates there may be further room to do so. In the winter 2006 term, roughly 1 in 8 classes had fewer students than the targeted minimum and, as was explained earlier, the targeted minimum often appeared understated.

   In some instances, there are obstacles to optimum geographic-based scheduling. For example, it is difficult for ACE to gain access to the shops and kitchens it needs to offer many of its courses. The use of middle schools for ACE is presently very limited. The problem could be alleviated by expanding the use of middle schools and increasing the availability of high schools. Another option would be to contract with area churches to access kitchens. There are a number of large congregations in Fairfax County that have elaborate kitchens they may be willing to rent out on weeknights.

As part of this review, a multiple regression analysis was run to determine the impact on program profitability of the following factors:

- enrollment as a % of capacity
- average revenue per student
- average students per course offering
- % of classes cancelled
- % of classes run below minimum level
- Total actual program enrollment
- Actual enrollment per class run
- Total course offerings

The program surplus/deficit data for 2005 was used as the dependent variable while the data gathered for the winter term of 2006 was used for the independent variables. It would be more statistically valid to use input and output data from the same period, but since this was not available, the regression was run with the data on hand. The program characteristics experienced minimal variation from 2005 to 2006 therefore the analysis should provide valid information.

The regression analysis indicated that the eight factors listed above accounted for 97% of the variation in profitability from program to program. The most significant relationships were as follows:

- Each increase of 1% in classes run below the minimum would cause a program's surplus to decline by $7,700
- Each increase of 1 in the average enrollment per class run would cause a program's surplus to increase by $10,663
- Each increase in the total course offerings would cause a program's surplus to increase by $1,698

Thus, the multiple regression analysis supports a conclusion that attention should be focused on increasing average class size and minimizing the number of small classes. At times, due to long-term vocational program pursuits by students, minimal class sizes still need to be tolerated, but as a general rule, they should be avoided.

Another consideration is the tuition charge per course. Our review included a comparison of ACE's rates with those in other regional jurisdictions. The following table reflects comparative data for the 2005-06 year gathered from course catalogs with respect to comparable programs offered in Arlington, Chesterfield, Fairfax, Henrico, and Montgomery County, as well as the Northern Virginia Community College (NOVA).

Regional Tuition Rates for Adult Education Programs

	Arlington	Chesterfield	**Fairfax**	Henrico	Montgomery	NOVA	**Regional Average**
Art							
Average Charge per Hour, Regular Resident	7.39	5.36	**8.14**	4.73	7.03	5.88	**6.42**
Average Charge per Hour, Senior Citizen	5.52	0	**4.07**	0	4.13	5.88	**3.27**
Average Charge per Hour, Nonresident	9.58	5.36	**8.14**	4.73	7.45	5.88	**6.86**
Average Course Length, Hours	12.4	15.2	**15.1**	10.2	24.1	51	**21.33**
Business							
Average Charge per Hour, Regular Resident	9.79	7.50	**5.35**	4.12	9.29	4.41	**6.74**
Average Charge per Hour, Senior Citizen	7.59	0	**2.68**	0	0	4.41	**2.45**
Average Charge per Hour, Nonresident	12.36	7.50	**5.35**	4.12	5.05	4.41	**6.47**
Average Course Length, Hours	4.1	4.7	**30.4**	16.4	4.8	51	**18.57**
Computer Education							
Average Charge per Hour, Regular Resident	11.95	4.74	**10.69**	4.01	13.24	4.85	**8.25**
Average Charge per Hour, Senior Citizen	9.3	0	**5.35**	0	10.40	4.85	**4.98**
Average Charge per Hour, Nonresident	15.11	4.74	**10.69**	4.01	13.81	4.85	**8.87**
Average Course Length, Hours	8.1	21.2	**17.1**	17.5	17.6	46.5	**21.34**

Regional Tuition Rates for Adult Education Programs (continued)

	Arlington	Chesterfield	**Fairfax**	Henrico	Montgomery	NOVA	**Regional Average**
ESOL (Montgomery College, not MCPS)							
Average Charge per Hour, Regular Resident	1.61		**4.09**		6.06	4.58	**4.09**
Average Charge per Hour, Senior Citizen			**2.05**		0	4.58	**2.21**
Average Charge per Hour, Nonresident			**4.09**		9.79	4.58	**6.15**
Average Course Length, Hours	**94.0**		**61.9**		43.3	106.0	**101.73**
Foreign Languages							
Average Charge per Hour, Regular Resident	6.72	5.05	6.99	3.78	7.49	4.44	5.75
Average Charge per Hour, Senior Citizen	5.03	0	3.50	0	4.21	4.44	2.86
Average Charge per Hour, Nonresident	8.73	5.05	6.99	3.78	7.91	4.44	6.15
Average Course Length, Hours	26.1	17.9	22.4	19.6	23.7	68.0	29.6

ACE's average charge per hour for regular residents is higher than the rates charged by most of the other organizations listed. ACE's charge of $5.35 per hour for business classes is much lower than the rates charged by Arlington and Montgomery, although it still exceeds the $4.41 rate at NOVA. As a public college, NOVA receives substantial support in the form of state tax dollars, so it has a competitive advantage. NOVA's classes also tend to be lengthier, typically running three hours per week for 17 weeks. This helps to lower the hourly charge per student necessary to achieve financial viability. Nevertheless, since NOVA's customer base tends not to overlap greatly with that of ACE, moderate increases in tuition rates for ACE business education classes could be considered.

In the other program areas, ACE's charges tend to be toward the upper end of the range, so there does not appear to be an opportunity to improve revenues by raising tuition rates across the board. Rate increases under these circumstances would likely cause enrollment to decline, thus causing total revenue to decline also. However, targeted increases may be feasible in selected course areas with relatively low rates.

ACE's charges to senior citizens also tend to be above regional averages, although the practice of Chesterfield and Henrico, in the Richmond metropolitan area, is to allow seniors to attend classes free as long as priority in placement is given to paying customers. ACE's senior citizen charges are somewhat low when compared only to Arlington, Montgomery, and NOVA.

Presently, ACE loses about $100,000 to senior citizen discounts each year. This figure is expected to escalate as the County population continues to age. The equity issues surrounding treatment of senior discounts are complex and require thoughtful consideration. Currently, a 45% discount is standard with a full discount granted to those experiencing financial hardship. There has traditionally been an understanding that ACE will act consistently with the senior discount policies enacted by the Fairfax County Department of Community and Recreation Services. One possible option may be to establish a priority rule similar to that used in Chesterfield and Henrico whereby seniors would be placed in classes on a space available basis and a class that failed to achieve financial breakeven status on the basis of full-paying customers would be cancelled. Another approach may be to limit discounts to those seniors who have qualified for reduced real estate taxes. This approach would impose an administrative burden as a method would need to be developed to efficiently identify qualified seniors. Still another possibility would be to raise the age minimum for a discount. Discounts are currently given beginning at age 60. ACE management and County staff have been working together to find an equitable solution.

ACE's average course length tends to be consistently lower than NOVA's. This is to be expected as colleges tend to cater primarily to students seeking rigorous academic development. If NOVA is excluded from the comparison ACE's course lengths are comparable to regional norms in all programs except business, where ACE has lengthier offerings. As a general rule, longer courses tend to achieve financial self-sufficiency more easily.

For the 2006 winter term, ACE offered a total of 620 classes, compared to 330 classes in Arlington; 82 in Chesterfield; 97 in Henrico; and 184 in Montgomery County. The breadth of ACE offerings far exceeds that of other regional opportunities thus the consideration of eliminating less profitable offerings is possible.

Breakeven Analysis

ACE management recognizes that a key issue is to establish a breakeven methodology that can be used to determine when a given class is financially viable, given its instructor pay, other costs, enrollment, and charge per student. The primary database used by ACE to register students did not interface with the financial systems therefore a system calculated breakeven analysis was not possible. Program managers devised techniques to determine class breakeven points. The standard rule has been to estimate total class expenses at a level equal to 180% of instructor pay. Thus, a program manager would take the rate of instructor pay, multiply by 1.8, and determine if the tuition rate to be charged, when multiplied by the number of students, would be sufficient to cover costs.

One of the primary expenses of a class is the cost of administrative support provided by ACE staff, totaling approximately $3.8 million a year. Data supplied by ACE financial staff indicated that fiscal year 2005 tuition revenue totaled $6,817,419, while ACE ran a net deficit of $662,287. Thus, tuition revenue needed to be $7,479,706, to achieve breakeven status. Instructor pay for the same period was $3,068,638. Employer FICA costs of 7.65% were also incurred. The total instructor compensation was $3,303,389. The ratio of the breakeven tuition revenue level, $7,470,706, to the total instructor compensation, $3,303,389, was 226.4%. This is considerably higher than the 180% target currently being employed. The fiscal year 2004 actual calculated ratio was 220.7%. In order to provide a safe margin of error, a factor of 230% is recommended for breakeven calculations. This ratio should be analyzed annually, as changing cost patterns could alter the ratio of total program costs to instructor pay.

The ratio used has a direct impact on the minimum enrollment threshold. For example, if ACE offers a 9-hour adult education class and pays the instructor $35 an hour (including FICA costs), then $724.50 (9 X $35 X 230%) in tuition must be generated for the class to achieve breakeven status. If the average tuition charged is $7 per hour, 11.5 full-paying students would be needed to break even. This is well above the conventional minimum enrollment threshold of 6. If the instructor received the minimum pay of $21 per hour, tuition of $467.95 would be required to break even, requiring 7.4 full-paying students.

Instructor pay varies greatly from class to class, ranging from a low of $21 to a high of $36 per hour. The pay rate is based on general teaching experience, ACE teaching experience, course-related credentials, the number of courses taught, and the degree of difficulty getting instructors for a given type of course. Comparatively, Henrico County pays its instructors a flat hourly rate of $24 regardless of credentials or tenure. Montgomery County pays $22.25 an hour for the first five years and then increases the rate to $23.75. Northern Virginia Community College pays a general instructor between $29.88 and $61.76 per hour depending on credentials and experience. Arlington County uses an 8-step pay scale. The pay ranges from $19 an hour to $30. No extra pay is given for advanced degrees but extra pay is provided for relevant teaching experience. Teachers can get a step increase once they have 90 hours of instruction, subject to a favorable performance evaluation from the ACE Director. Arlington indicated that it has been able to recruit sufficient quantities of instructors with reasonable effort at the pay offered. Arlington also reports that it has had success getting more people to serve as volunteer instructors. As an incentive, real estate and investment advisors are allowed to place their business cards on a table at the back of the room for anyone who may be interested.

A multi-year redesign of the OnCourse data base is anticipated to reach completion in summer of 2006. The revised software will enable the registration data base to access the instructor's pay and use it to estimate the total cost that needs to be covered in order for the course to break even.

There are regulatory restrictions on some programs that inhibit the process of setting tuition rates. For example, the state caps the maximum allowable tuition rate for FCPS Behind-the-Wheel instruction each year. The cap in FY 2006 was $190 for Behind-the-Wheel, $105 for Classroom Driver Education, and $70 for Driver Improvement. Behind-the-Wheel instruction, by nature, has minimal class sizes, so arbitrarily low rates make financial losses virtually inevitable. The need to purchase and maintain vehicles, in addition to paying for fuel, adds to the challenge. In FY 2005 the Driver Education Program had revenue of $685,842 and expenditures of $737,753, or 107.6% of revenue. Additionally, expenditures for the Driver Improvement Program, at $153,874, exceeded revenues by 52.7%.

The online registration system could provide a means for ACE to pursue cost efficiencies relating to the production and distribution of its course catalogs. Existing customers could be asked if they would be willing to receive future catalogs by email, thereby saving printing and postage costs.

Distance learning offers a means of expanding ACE's enrollment base by capitalizing on its large portfolio of courses by offering some courses via satellite television to communities in Virginia that lack the resources to provide such courses on their own. State officials have indicated that they are particularly interested in finding localities that can host distance learning classes in ESL, trades, and apprenticeship programs. The cost of satellite transmission is approximately $750 an hour thus this option warrants careful analysis before any commitments are made. In addition, FCPS does not currently have the ability to film classes outside its own studio, thus possibly hindering courses that depend on shop environments. There would be numerous coordination issues with the remote localities and the promotion of the program could be a challenge. Online courses are another possibility. They are relatively inexpensive but may not adequately meet the instructional needs of adult ESL students and apprentice candidates around the state.

Impact of Registration Redesign Project

ACE experienced an average annual deficit of $653,374 during the FY 2000 to FY2005 period. Details for each fiscal year were as follows:

Fiscal Year	Revenue	Expenditure	Surplus/(Deficit)
2000	$ 8,318,919	$ 8,048726	$ 270,193
2001	8,920,587	9,426,600	(506,013)
2002	9,556,958	10,774,129	(1,217,171)
2003	9,296,878	10,710,362	(1,413,484)
2004	9,972,720	10,364,199	(391,479)
2005	10,053,598	10,715,885	(662,287)

ACE generated a surplus at the beginning of the period shown, but subsequently began to operate at a deficit. ACE has been implementing a major software enhancement known as the "Registration Redesign Project." Key benefits of the project will include the ability to integrate teacher pay data with course enrollment information to assess breakeven prospects and provide adult customers with online registration capabilities. The total cost of the project thus far has been $5,765,565, which includes not only the basic redesign, but also summer school registration implementation, and online registration. The higher cost has been attributed to the design complexity necessary to enable data exchange between multiple systems with a Web Methods interface. The project expenditures fluctuated greatly from year to year: $236,032 in FY 2000; $1,218,531 in 2001; $1,834,178 in 2002; $1,570,852 in 2003; $445,020 in 2004; and $460,952 in 2005. The costs incurred in 2002 and 2003 in particular were material and resulted in a large deficit. While project costs declined in 2004 and 2005 the deficits persisted. Software implementation is expected to be completed this summer and future expenditures should be sharply reduced. Annual maintenance costs of the system will run slightly over $100,000 with additional periodic expenditures for upgrades.

Software costs incurred should be included in the overhead allocation charges to the various programs. If the Registration Redesign expenditures had been included, the programs would have been charged a combined total of $5,765,565 over the period from FY 2000 to FY 2005. If the programs had successfully met these elevated targets, ACE would not have experienced a deficit in any year except 2005, and this deficit would have been reduced from $662,287 to $201,335. If the programs had been unable to cover the additional expenditures the overall challenges ACE faced in achieving financial self sufficiency would have been more apparent. The only exception to including all software development costs in the annual overhead allocation would be when particularly large one time expenditures were incurred as part of a planned reduction of reserves. In this situation the amount of the "planned deficit" should be removed from the allocation.

ACE anticipates public interest in the development of an online registration capability for summer school in the near future. Since the summer school program is funded separately from ACE, ACE management believes that it would be reasonable for the operating fund to subsidize this software upgrade rather than rely solely on adult tuition fees to generate the means to pay for it. Once pertinent business processes are redesigned, the summer school online registration capability could be expanded to encompass after school programs. It may also be used to schedule vendor tutoring classes offered under the provisions of the No Child Left Behind Act.

Financial Issues facing ACE

ACE faces the same financial challenges that face FCPS as a whole. Overall, administrative expenditures have increased by 33.14% over fiscal years 2000-2005. The breakdown of this increase was as follows:

Adult and Community Education: Five Year Expenditure Trends

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	Percent Change
Salaries	$2,481,432	$3,029,783	$3,361,479	$3,856,132	$3,715,584	$3,862,369	55.65
Benefits	938,363	1,089,061	1,128,589	1,262,189	1,403,839	1,636,052	74.35
Textbooks	505,466	595,104	535,204	623,916	752,699	592,044	17.13
Administrative Fee	2,220,593	1,810,183	2,352,905	1,993,112	2,432,572	2,522,824	13.61
Postage	281,628	208,876	208,723	186,533	183,127	193,218	(31.39)
Printing	335,250	228,834	268,613	236,642	282,397	277,443	(17.24)
Other General	1,049,962	1,246,228	1,084,438	980,986	1,148,961	1,170,983	11.53
Subtotal	**7,812,694**	**8,208,069**	**8,939,951**	**9,139,510**	**9,919,179**	**10,254,933**	**31.26**
Registration Project	236,032	1,218,531	1,834,178	1,570,852	445,020	460,952	**95.29**
Total Expenditures	**$8,048,726**	**$9,426,600**	**$10,774,129**	**$10,710,362**	**$10,364,199**	**$10,715,885**	**33.14**

Similar to the school division as a whole, ACE has contended with increases in administrative costs. In recent years, ACE has moved toward more full-time, benefit eligible, employees. This coupled with increases in insurance premiums resulted in a significant increase in benefit expenditures of approximately 74% from FY 2000 to 2005.

The instructor salaries increased approximately 23% over the period while contract salaries rose 61%. In an effort to sustain program viability and keep tuition costs down, ACE has minimized increases in instructor pay rates, but contract staff have received both step and cost of living increases in line with those of the school division as a whole. To complicate matters further, the number of permanent contract positions has grown by approximately 10% during this same period.

ACE faces additional compensation pressure with temporary employees as well. There are thirty six persons who are employed in nonexempt permanent FCPS positions who also work for ACE in temporary positions. It is unknown how many nonexempt County employees also work for ACE. The Fair Labor Standards Act requires that such persons be paid overtime rates if their ACE hours, coupled with their hours in their regular jobs, exceed 40 for a given week. ACE will attempt to cut back on the use of such dual job individuals in an effort to control the associated overtime costs.

Funding Sources

Many of the services rendered by ACE staff benefit the instructional programs of FCPS. Therefore, ACE's relationship to the school division at large poses numerous dilemmas as the goal of financial self sufficiency is pursued. This interrelationship creates variety of questions regarding which fund, the ACE fund or the operating fund, should pick up a particular cost. What follows is a discussion of six such costs and how the costs can be attributable to both funds.

1. Salary of the ACE Director

   Until the late 1990s, the operating fund paid for the salaries of the ACE director and the administrative assistant to the director. Currently, the operating fund pays only for the director. The ACE director reports to the assistant superintendent of Instructional Services whose department is primarily funded out of the operating fund. The ACE director not only provides management of the ACE programs and the Adult High School Completion Programs, but also provides administrative support for Summer School and After School Remediation Programs.

   The goal is to ensure that public tax dollars are focused on the core K-12 education requirements, then salaries related to the activities of ACE should be reflected in the ACE fund so that tuition may be set to cover those costs. Additionally, since the ACE director position is a hybrid position, serving both ACE and the division as a whole, if the salary is charged to the ACE fund, the calculation of the interfund transfer to reimburse ACE for support of other programs should make proper allowance for the value of the director's services rendered to these programs.

2. Building Use Management Specialists

   A longstanding issue for ACE has been the difficulty of developing effective working relationships with the schools that must serve as hosts for ACE course offerings. The principals of the schools have building use priorities geared to their K-12 education agenda and therefore are somewhat hesitant to give up control over the after hours use of their buildings. As a means to promote smooth working relations, building use management specialist positions were created a few years ago. These positions are funded solely out of the ACE Fund and report to the respective school principals. Therefore, the building use management specialists coordinate building use by faculty, school sports programs, external community users, and ACE programs. Since the majority of the duties associated with these positions benefit to the operating fund, it may be appropriate to charge their costs there. Alternatively, the costs could be split to acknowledge that these individuals provide services to support the schools in addition to aiding ACE's mission.

3. On-Course Database Engineer

   This position was created a few years ago to serve as a database engineer for the Registration Redesign Project, which is nearing completion. The individual in the position reports to the Assistant Superintendent for Instructional Technology. The position will be retained but will be assigned to a variety of non-ACE projects; therefore, consideration should be given to charging the operating fund for this position.

4. State-Mandated Driver Education for K-12 Students

   The State requires that public school divisions offer behind-the-wheel driver education classes to high school students. In addition to driver improvement classes for adults, ACE has also been assigned to conduct the K-12 driver education classes. In the past year, 2,348 students have been trained in this program. Since the program meets a core requirement of the K-12 process, the associated cost could reasonably be charged to the operating fund. The budget for this program in FY 2006 is $883,558. This program is partially funded by Basic School Aid from the State amounting to $322,484. As of 6/8/2006, tuition revenue of $413,521 was collected as well. Thus, the net expenditure would be approximately $147,553.

5. Thomas Jefferson Admissions Test Preparation Classes

   This program is split into two components. One program is for the general population of students who seek assistance passing the exam that plays a heavy role in the competitive selection process for Thomas Jefferson High School (TJHS). The other component is for children from schools whose populations have traditionally been underrepresented at TJHSST. The general program had an FY 2006 expenditure budget of $249,497 with collected tuition revenues of $247,530. The program for underrepresented schools had a 2006 budget of $100,021. No tuition is charged to this program and the operating fund provided $100,000 in support of this program. In FY 2005, the general program generated a surplus of $78,331 and the underrepresented sites program generated a surplus of $46,678. However, this program was a three-year pilot which has now ended and will not continue next year.

6. The Costs of Registering Summer School Students and Facilitating the Associated Transportation Arrangements and the Costs of Providing Administrative Support to the Adult High School Completion Program

   Since the Office of Adult and Community Education was designed to handle individual course enrollments and tuition collection, it was assigned the registration and revenue collection, and subsequently the other support activities, for the Summer School and After School Remediation programs. This arrangement has made measuring ACE's financial self sufficiency difficult.

   The total enrollment served by ACE in FY 2005 was 91,030, of which 29,125, or 32%, was for the Summer School Remediation and Enrichment Program (regular school term extended day remediation classes are part of this program). In addition, there were 3,637 enrollments related to the Adult High School Completion program, or 3.7% of the total. Combined, these programs account for approximately 36% of the registrations processed by ACE staff. Furthermore, the work required for summer school student is much greater than that for adults. For example, summer school registrations require the written approval of the parents/guardians and principals of host schools, the collection of transportation fees and the coordination with Facilities Services to facilitate the scheduling of bus runs. A staff work process review performed by ACE indicated that the work necessary to enroll a student for summer school is more than double that required to enroll an adult in an ACE program.

   Although there was no explicit transfer of money from the operating fund for this purpose, budget authority was been given to ACE to charge $1.675 million of its administrative support expenditures to the Adult High School Completion and Summer School accounts: Adult High School Completion, $ 251,653; Summer School, Instructional Services, $1,166,753; and Summer School, Special Services, $256,630. The transactions are posted as "work performed for others". Originally budgeted for ACE, the charges are transferred to the appropriate account. The net effect is the same as if the expenditures had been originally recorded in the other programs.

   It is important to understand that summer school charges are not funded by the operating fund, but rather are posted to the Grants and Self-Supporting Programs Fund. However, since the operating fund provides $14 million of support to the

Summer School Remediation and Enrichment Program, the net effect in terms of ACE's surplus or deficit computation is the same as if an explicit transfer of $1.675 million was made by the operating fund to cover these costs. Therefore, to simplify this for the purpose of discussion, this report assumes the ACE fund is directly funded from the operating fund. The overriding question relates to the transfer amount.

Historically, the primary component of the transfer, Summer School-Instructional Services, was calculated at a level equal to 12.8% of the original approved budget for the Summer School Remediation and Enrichment Program. Recently, the transfer amount was reduced to 9.6% of the original approved budget. To compensate for the reduced operating fund subsidy, ACE was granted authority, beginning with the 2006 summer session, to charge a summer school registration fee of $40 per student, and keep the revenues to fund ACE expenditures. This fee will generate an estimated $460,000, calculated as follows:

Description	Amount
2005 Enrollment	17,588
Estimated 8.3% Growth (based on 2001 to 2005 average growth)	1,460
2006 Enrollment (projected)	19,048
Less:	(7,257)
Full Fee Waivers (38.1% based on 2005 figures)	
25% Fee Waivers for Reduced Lunch Students (based on federal government's National School Breakfast Program where there are, on average, 7 reduced lunch students for every 45 free lunch students)	(282)
Number of Students Subject to Fee	11,509
Projected Total Revenue Generated from $40 Registration Fee	$460,360

The $1.675 million that ACE can charge to the Adult High School Completion and Summer School accounts, combined with the projected registration fee revenue of $460,360, effectively provides ACE with compensation totaling $2,135,036 in exchange for providing support to the Summer School Remediation and Enrichment and Adult High School Completion Programs. However, the value of services rendered by ACE should be calculated to determine the sufficiency of the compensation amount.

ACE currently has an internal mechanism to distribute administrative costs to specific tuition-generating programs as a means of pursuing financial self sufficiency. The charge to the operating fund could also be calculated in the same manner. ACE's process first identifies the costs to be allocated, i.e. ACE administration costs, building use management costs, the registration redesign costs, and the ACE centralized account balance. The next step is to compute program enrollment as a percentage of the total enrollment. Using this percentage, costs are allocated to each individual program. The following table illustrates this process.

Adult and Community Education Allocation

Proposed Allocated Expenditures	
Building Use Management	$ 352,262
Administration	3,167,834
Registration Redesign	454,153
ACE Centralized Accounts	(190,528)
Total Allocation	$ 3,783,721

Adult Education Program	Prior Year's Registration	Projected Expenditure without Administrative Charges	Enrollment Percentage	Allocation
ESL Group Contract Training	295	169,569	0.37%	13,812
TJ Admissions Test Prep	1,286	265,075	1.59%	60,211
ACE Kids Program	1,177	160,581	1.46%	55,107
ACE Teens Program	3,076	302,122	3.81%	144,019
Flex Program	3,005	289,955	3.72%	140,694
ESL-Basic Education Program	7,261	1,907,154	8.98%	339,961
Apprenticeship Program	2,408	762,060	2.98%	112,743
Grant-funded or incidental programs		598,890		
ESL/Tuition Program	3,378	1,047,993	4.18%	158,158
Driver Improvement Program	1,411	106,919	1.75%	66,063
Driver Education Program	2,191	626,938	2.71%	102,583
Professional Services Program	299	2,296	0.37%	13,999
Business Education Program	4,637	300,816	5.74%	217,105
Computer Training Program	3,172	395,074	3.93%	148,513
Health and Medical Program	1,240	282,302	1.53%	58,057
Home and Personal Improvement	2,734	256,046	3.38%	128,006
Art Education	2,338	233,403	2.89%	109,465
Foreign/Sign Language Program	4,614	442,428	5.71%	216,028
Trade and Industry Program	2,198	291,389	2.72%	102,911
Contracts/FCPS	1,128	58,177	1.40%	52,813
Contracts/Business	440	72,302	0.54%	20,601
Subtotals, ACE Programs	**48,288**	**8,571,489**	**59.75%**	**2,260,850**
Operating Fund Programs				
Adult High School Completion Program	3,401		4.21%	159,235
Summer School Program	29,125		36.04%	1,363,636
Subtotals, Operating Fund Programs	**32,526**		**40.25%**	**1,522,871**
Totals All Programs	**80,814**		**100.00%**	**3,783,721**

Sources: FAMIS Expenditure Summary Report 6/8/2006, Department of Financial Services
FY 2005 Adult and Community Advisory Committee Annual Report
Note: Internal audit did not verify the accuracy of the data used.

The calculation resulted in a $1,522,871 operating fund expenditure allocation. The FY 2006 actual operating fund transfer was $1,675,000. This amount, combined with the addition of the projected registration fee revenue, totaled $2,135,036. While it appears that the total to be received by ACE would more than compensate for the expenditures related to the operating fund, it is important to remember that the calculated allocation used student enrollment as the basic unit of measure for assessing the relative amount of administrative support work concentrated on particular programs by ACE staff. However, as previously noted, a work process review performed by ACE indicated that the work necessary to enroll a student for summer school is generally more than double the processing workload compared to that required to enroll an adult in an ACE program. Therefore, a more equitable allocation would be to weight the overhead allocation process to reflect the increased process time required for summer school registrations. The following table illustrates the result of weighting the summer school enrollment. Note the only change in the original information is the doubling of the number of students for summer school enrollment to reflect twice the work process required for registration. The proposed allocated expenditures of $3,783,721 remained the same.

Adult and Community Education Allocation
Weighted for Summer School Processing Requirements

Adult Education Program	Prior Year's Registration	Projected Expenditure without Administrative Charges	Enrollment Percentage	Allocation
ESL Group Contract Training	295	169,569	0.27%	10,153
TJ Admissions Test Prep	1,286	265,075	1.17%	44,260
ACE Kids Program	1,177	160,581	1.07%	40,508
ACE Teens Program	3,076	302,122	2.80%	105,865
Flex Program	3,005	289,955	2.73%	103,422
ESL-Basic Education Program	7,261	1,907,154	6.60%	249,899
Apprenticeship Program	2,408	762,060	2.19%	82,875
Grant-funded or incidental programs		598,890		
ESL/Tuition Program	3,378	1,047,993	3.07%	116,259
Driver Improvement Program	1,411	106,919	1.28%	48,562
Driver Education Program	2,191	626,938	1.99%	75,407
Professional Services Program	299	2,296	0.27%	10,291
Business Education Program	4,637	300,816	4.22%	159,590
Computer Training Program	3,172	395,074	2.89%	109,169
Health and Medical Program	1,240	282,302	1.13%	42,677
Home and Personal Improvement	2,734	256,046	2.49%	94,095
Art Education	2,338	233,403	2.13%	80,466
Foreign/Sign Language Program	4,614	442,428	4.20%	158,798
Trade and Industry Program	2,198	291,389	2.00%	75,648
Contracts/FCPS	1,128	58,177	1.03%	38,822
Contracts/Business	440	72,302	0.40%	15,143
Subtotals, ACE Programs	**48,288**	**8,571,489**	**43.92%**	**1,661,906**
Operating Fund Programs				
Adult High School Completion Program	3,401		3.09%	117,051
Summer School Program (29,125*2)	58,250		52.98%	2,004,764
Subtotals, Operating Fund Programs	**61,651**		**56.08%**	**2,121,815**
Totals All Programs	**109,939**		**100.00%**	**3,783,721**

Sources: FAMIS Expenditure Summary Report 6/8/2006, Department of Financial Services
FY 2005 Adult and Community Advisory Committee Annual Report
Note: Internal audit did not verify the accuracy of the data used.

The new weighted calculation resulted in an increased operating fund expenditure allocation of $2,121,815. However, this amount is approximately $13,000 lower than the $2,135,036 combined value of operating fund support being provided. Therefore, while agreement is needed on the precise calculation methodology to be used, the current level of operating fund support for ACE services appears to be adequate. Care needs to be taken as all calculations were based on a projected registration revenue total. An actual registration revenue amount is needed to determine a more accurate calculation. Additionally, once a consistent calculation methodology is agreed upon, it should be utilized annually with the then current data to determine an accurate amount needed for funding support.

As has been discussed earlier in this report, summer school enrollment is growing rapidly and each year it represents a higher proportion of the total enrollment portrayed in the Adult and Community Education Committee's Annual Report. Beginning in FY 2006, 4th, 6th, and 7th graders were added to the list of those required to sit for State Standards of Learning tests. Since student failures on SOL tests are a key driver of summer school enrollment, there may be rapid growth in the near future. This will only serve to increase the administrative demands placed on the time of ACE's staff and make it more challenging to achieve financial self sufficiency unless the formula used to calculate the operating fund transfer accurately compensates for the value of the additional summer school support.

Interrelationship Between ACE and the FCPS Operating Funds

The original FY 2006 budget authorized operating fund transfer to support ACE was $1,200,131; however the total operating fund transfer to support ACE was actually $1,700,131. An additional $500,000 was provided as part of the midyear budget review process to forestall what appeared to be a possible deficit performance for ACE. Since the overhead allocation was calculated earlier in the fiscal year, if administrative costs were higher than originally anticipated, the costs could not be absorbed by the programs. A recommended approach would be to allocate overhead at least quarterly based on actual expenditures incurred. This would enable program managers to better monitor the fund balances and make adjustments during the year to address potential financial shortfalls and minimize the need for emergency appropriations.

The following summarizes the impact of the ideas outlined in the preceding discussion:

1. Director's Salary: Currently the director's salary is paid from the operating fund but to better reflect ACE expenditures, the salary should be paid from the ACE fund. The allocation of the salary from the operating fund would be covered in the overhead allocation.

   Net Effect: Increase ACE fund expenditures by $136,412

2. Building Use Management Specialists: Currently costs associated with the specialists are paid by the ACE fund; however, the specialists, who are assigned to a specific school, manage the general use of the building in addition to scheduling

ACE programs. To better reflect this shared benefit the associated cost, totaling $352,262, should be shared between the ACE fund and operating fund.

Net Effect: Decrease ACE fund expenditures by $176,131

3. On-Course Database Engineer: Employee is currently assigned to the ACE registration project and all costs are paid by the ACE fund. The project is nearing an end and the employee will be assigned to support numerous systems that are not related to ACE. Thus to better reflect the services provided the costs should be paid with operating funds upon completion of the registration project.

   Net Effect: Decrease ACE fund expenditures by $99,760

4. Behind-The-Wheel Driver's Education: Currently all costs, not funded by the State or covered by tuition revenue, are paid by the ACE fund. As this is a state mandated program that meets a core requirement of K-12 education, costs not covered by other sources should be paid from the operating fund.

   Net Effect: Decrease ACE fund expenditures by $147,553

5. Thomas Jefferson Admissions Test Preparation Classes: A transfer of $100,000 from the operating fund was established as ACE was being required to offer a free course to underrepresented students. While the transfer appeared appropriate it will no longer be required as the program was discontinued at the end of the three-year pilot and no additional funding was requested.

   Net Effect: No net ACE effect as program was fully funded.

6. Overhead Allocation (Cost of Providing Non-Ace Services): While the allocation for Summer School Remediation and Enrichment program support was decreased to 9.6% from 12.8%, ACE was granted the authority to assess a $40 per student registration fee. Assuming all past trends regarding growth and fee waivers remain constant, the revenue generated by the registration fee will compensate for the loss of the allocated percentage providing a total compensation level of $2,135,000. If the overhead is allocated based on the weighted enrollment percentage, the total allocation would be $2,121,815, or a decrease of $13,185 to the ACE fund.

   Net Effect: Increase ACE fund expenditures by $13,185

7. Overhead Adjustment: An overhead adjustment of $80,982 is needed to reflect the effect of implementing the above noted changes, resulting in a decrease in the funds received by ACE through the allocation of overhead.

   Net Effect: Increase ACE fund expenditures by $80,982

Again, assuming all proposed ideas are implemented as discussed, the total effect of the implementation would be an estimated $192,865 financial improvement for ACE. The operating fund would thus absorb the additional burden of the $192,865. Additionally, if management takes an alternate approach for any of the issues, individually or otherwise, the final calculation would no longer apply and the net effect would change.

Prominent ACE Programs

In addition to completing a financial analysis of ACE, we were asked to outline the general status of key ACE programs. Program managers were interviewed and what follows is a status summary of the prominent ACE programs.

Education for Independence: This program is designed to provide single mothers, displaced homemakers, and single pregnant women with the skills needed to help them obtain employment and juggle work/parenting responsibilities. It was funded by a State grant for about 19 years, but the state program was discontinued. Capital One Corporation provided a grant to fund FY2006 and $40,000 has been awarded by the Consolidated Funding Pool of Fairfax County to cover the next two years. Additional funding will be needed to meet the demand for the program. ACE staff is hopeful that Capital One will choose to fund the program again. Otherwise, the program scope will be adjusted to stay within the funds available.

Apprenticeship Program: The State mandates that apprenticeship programs be available as students seek them. There is a list of hundreds of occupations for which students may seek training. Fairfax County serves as a regional center for apprenticeship classes. Most apprenticeship tracks are four years long, although they may vary from 1 to 5 years. Previously the State funded about two thirds of the cost of the program, but now it funds about 7%, and the tuition is usually paid by sponsoring employers. The trades being sought have remained fairly constant, although demand for Spanish language-assisted instruction is now high. The program had an enrollment of 2,408 in FY 2005 with a surplus of $194,424, while FY 2001 enrollment was 1,274.

Business Education Program: This program offers courses dealing with accounting, financial planning, and business enterprise issues. Peachtree and QuickBooks courses are generally popular; however, external market factors cause sudden shifts in demand for particular course. For example, the recent decline in area housing prices has caused interest in real estate licensing classes to decline dramatically. The Business Education Program also faces tremendous competition from the growing number of private vendors that also offer this type of instruction. Total enrollment in FY 2005 was 4,637. The program earned a modest surplus of $8,813 last year. As of June 8, 2006, it showed current year revenue of $350,660 and expenditures of $369,608.

ESOL Program for Adults: This program has recently shown a slight decline in enrollment, 11,078 students, in FY 2001, down to 10,639 in FY 2005. Even so, ACE teaches about 60% of all the adult ESOL students in Virginia. The State requires every school division to provide this program and provided a pass-thru federal grant of $846,407 to help support the program. The State has indicated it intends to change the methodology used to calculate the amount of grant support provided. In the past, the formula was distributed on the basis of census data, a method compatible with Fairfax and its disproportionately large immigrant population. However, the State plans to switch to a competitive format and the impact of this change on ACE is unclear. At one time, there was a great deal of community concern expressed about the waiting list of adults in need of ESOL education. The Board of Supervisors began allocating additional funds in the late 1990s to use to help address this problem but the amount, approximately $1.1 million, has been frozen since 2002.

ACE conducts these courses in locations where high concentrations of immigrants are known to reside and ACE has expanded its range of offerings to meet the diverse needs. For example, special classes designed for people who are illiterate in their native language are now being offered. As the demand for ESOL classes has begun to taper off, there is a concern that the immigrant population has shifted and that class locations are no longer concentrated in immigrant populated areas. For example, the Falls Church area used to have a particularly high concentration of immigrants, but today other areas of the County have a more prominent concentration. The process of arranging for suitable facilities access in a new area of the county can be complicated. Not only must a host school agree to allow ESOL classes to take place at night, but ACE-designated storage space is required for non-circulating textbooks. In addition, promotional efforts of the ESOL program usually take a few years to reach full fruition in a new area, so enrollment is low in the early years since the availability of the classes is not universally known among the target audience.

In FY 2005, the Adult ESOL program operated at a surplus of $110,523 once the State and local subsidies were included. As of June 8, 2006, its FY 2006 results showed revenues of $3,593,723 and expenditures of $3,501,647, with tuition payments totaling $932,845, or 26% of total program revenue.

Foreign/Sign Language Program: Enrollment has declined slightly in recent years, from 4,983 in FY 2001 to 4,614 in FY 2005. The program manager is committed to diligently searching for instructors who can expand the range of languages offered. The number of languages in the ACE catalog is far above the regional norms; however, about one in six classes is cancelled. The program generated a surplus of $42,037 in FY 2005. In the current year, as of June 8, it shows revenue of $669,597 and expenditures of $567,993.

Group Contract Training: This program provides customized ESL or work-related training to specific employers' work forces at contractually agreed upon prices. Fairfax County Public Schools and Fairfax County are prominent customers. Enrollment has declined in recent years, from 2,526 in FY 2001 to 1,863 in 2005. The program operated at a deficit of $101,214 in 2005. As of June 8, the FY 2006 performance reflected revenue of $155,004 and expenditures of $151,888.

Trade and Industry Program: This program provides vocational training opportunities other than those in the apprenticeship umbrella. Enrollment growth from FY 2001 to 2005 was substantial, from 1,573 to 2,198 students. A big constraint facing the program is the difficulty accessing specialized shops suitable for vocational training. Currently, ACE is permitted access to only one middle school; however, that facility is restricted to ESOL classes. The Trade and Industry Program would benefit greatly from the use of middle school shop facilities. Another issue with the program was that it often offers a pipeline of related classes that students progress through to complete a specific form of occupational training and at times there are very few students at a particular point in the pipeline. In such instances, class sizes are undesirably small. In FY 2005, the program operated at a deficit of $49,930. As of June 8, FY 2006 performance reflected revenue of $337,948 and expenditures of $382,935.

Summary of Items for Consideration

1. The roles of programs should be reassessed to adapt to changing community needs. Many programs have experienced declining enrollment trends in recent years and program needs should be shifted to continue to meet the demands of the community.

   Management Response: ACE leadership has been conducting an intensive review of ACE programming, marketing, staffing, and management approaches. An organizational restructuring has recently been implemented, which includes the following actions:

   A. Change of reporting structure for revenue-producing PreK-12 programs, effective September 1, 2006, to enhance program oversight and increase fiscal accountability.

   B. Elimination/reduction of lowest performing programs.

   C. Continual monitoring and evaluation of program offerings and resource allocation.

   D. Aggressive development of new product lines to meet emerging public needs and interests. Examples of recently launched initiatives include:
      1. Spoken Language Interpretation
      2. Adult Instructor Training
      3. Distance Learning Classes
      4. Classes in Other Languages
      5. Professional Personal Chef Certification
      6. Fitness Specialist for Older Adults – Certification
      7. Health Unit Care Coordinator Certification

   E. Strategic expansion of services to new locations, beginning with South County Secondary School.

   F. Implementation of geographic approach to marketing.

   G. Development of strategies to receive more community input on programming.

2. Reported ACE enrollment figures should reflect only direct recipients of ACE services. Overall ACE experienced a growth in enrollment; however, the enrollment figures reported included the number of persons enrolled in independent courses being led by individuals who were trained by ACE. In addition, the number of gift certificates sold was another reported item. While these may have resulted from past enrollment or may lead to future enrollment, respectively, they do not constitute actual enrollment themselves.

   Management Response: Spurred by this review, ACE leadership has taken a closer look at the course enrollment figures that have traditionally been captured in the ACE Advisory Committee Annual Report. In the past, an effort was made to keep reporting categories consistent over time. Yet, on closer investigation, several inconsistencies/omissions/areas for improvement have been identified, in addition to those identified above:

   A. Woodson Adult High School statistics reported unique participants, rather than total enrollments, in fiscal years 2002 through 2005. This was inconsistent with the reporting in FY 2001 (total registrations) and also inconsistent with other enrollment statistics in the reports. Beginning with the upcoming FY 2006 report, total enrollments will be reported.

   B. In several areas of endeavor, enrollments are captured through paper records or other databases, but not in OnCourse, ACE's course management and registration system, or not in the Annual Report. For example, career planning workshops and job seeking skills seminars are provided to select ACE clients and in classes which ACE conducts at the SkillSource Centers, but these have not been advertised to the general public and have not been captured in this reporting vehicle.

   ACE management agrees with the recommendation to eliminate non-instructional services from the "Enrollments and Services" chart in the Annual Report; to show significant services (such as veterans' services, educational counseling, etc.) in another format in the report; and to eliminate entries that are not significant or not useful such as the gift certificates and the number of students benefiting from the ESOL community volunteer training program.

3. Overhead allocation methodologies should be standardized to promote year-to-year continuity in program business practices. In addition, all non programmatic expenditures not explicitly covered by grant revenue or operating fund transfers should be included in the overhead calculation, with the sole exception of expenditures incurred as part of an adopted budget strategy to draw down existing ACE reserves. Lastly, Adult High School Completion and Summer School Remediation and Enrichment Programs should be incorporated in the overhead calculation, preferably with the enrollment levels for summer school weighted to reflect the extra level of effort required to administer to the program.

   Management Response: Determination of the most appropriate approach to overhead allocation has perhaps been the most challenging aspect of this review, from a management perspective. During the ACE Redesign several years ago, a complex formula was established for determining overhead allocations. This formula was cumbersome and overly complex. Efforts were made in FY 2006 to simplify and more equitably distribute the costs across programs.

ACE management has strongly considered the recommendation to further refine the distribution of overhead allocation by defining student enrollment as a unit and then weighting the unit relative to processing workload as the basis for defining the distributing factor for disbursing the administrative cost. This approach was used as a parameter (rather than a strict methodology) in the analysis of the FY 2008 budget development. Both the level of effort involved in administration of different programs and the apparent reasonableness of the allocation are considered in apportioning overhead costs.

A critical concern to ACE management is control of those costs, which is being addressed through a variety of means including position reduction, extended salary lapse (due to ACE's self-imposed hiring freeze on most staff vacancies), and intense scrutiny of expenditure patterns.

4. A consistent class breakeven calculation methodology should be developed to minimize deficits. The current target rate 180% of instructor pay appears to be inadequate and a target of 230% appears more realistic based upon the data provided. The targeted class minimums in the automated registration system, in turn, should then reflect the course-specific calculated minimums rather than default to a standard level of 6. Additionally, a strategy should be developed to reduce the number of classes that are operated below desired minimum enrollment levels.

   Management Response: This analysis is most useful. The new instructor pay module currently being developed in OnCourse, ACE's course management and registration system, will provide automated calculations of break-even points that will be a great tool for determination of break-even points. Payroll Services, Human Resources, and the Department of Information Technology have been working with ACE to develop this new capability that will enhance current business practices as well as address known problems. This new capability is planned for implementation in the latter half of FY 2007.

   Classes that are canceled are expensive to ACE: the advance work of preparing the course, hiring the instructor, advertising the class, etc., as well as the double-work of registering students, canceling the class, notifying students of the cancellation, and refunding customer payments, all add to the urgency of avoiding class cancellations. This suggests that ACE's emphasis must be placed on strategically scheduling classes with a high potential for filling, and redoubling efforts to ensure that class seats are filled. ACE will continue to work on programming and marketing strategies that contribute to meeting these goals.

5. ACE staff and the FCPS Leadership Team should develop an arrangement allowing ACE access to additional FCPS school facilities to meet the demands of the community. ACE needs access to middle school, or additional high school, shops and kitchens on an as-needed basis. If the need for these facilities cannot be met

by FCPS, churches or other entities with industrial kitchens could be approached to negotiate potential rental agreements. In addition, due to changing immigrant populations, there is a need for ACE to expand its Adult ESOL program to other areas of the County. Assistance from FCPS officials is needed to establish a working relationship with a host school and to arrange for storage of the program's textbooks.

Management Response: This recommendation is well taken. ACE is developing a geographic approach to programming and marketing in an effort to ensure that classes are offered in the locations most convenient to interested customers. The ultimate goal is to have ACE centers of lifelong educational opportunities located in each of the quadrants of the county, with "satellite" class locations scattered throughout the communities that need more convenient in-neighborhood learning facilities.

The support of school and cluster administrators is essential to ensure that parents and other community members are viewed as valued and welcome recipients of services at these facilities.

6. A review of tuition levels should be conducted to determine areas where revenue could be enhanced to promote program self-sufficiency. In addition, Fairfax County and FCPS officials should make a collaborative effort to craft an equitable senior citizen discount policy that adequately addresses their unique needs while realistically confronting the challenges of achieving programmatic financial self sufficiency in the face of demographic change.

   Management Response: ACE program specialists review tuition levels and market demand on a constant basis to determine the optimal balance between affordability and fiscal sustainability. Some courses can sustain price increases more easily than others, depending on the niche market being served, but all are subject to market forces. For example, we have been fairly aggressive in recent years in keeping apprenticeship tuition costs to the maximum that the market will bear. With the downturn in the construction industry, we will need to tread more lightly, as our numbers begin to dip down.

   The first phase of the ACE Financial Recovery Plan was to increase prices to the extent practicable, as well as to generate promising new revenue-producing product lines. At this point, we will focus more effort in ensuring that more seats per class are filled, and that we work at a higher level of efficiency in programming classes.

   This year, the senior citizen fee policy has been amended to mirror the policy adopted by the Department of Parks and Recreation, and our senior discount has been reduced from 50% to 45%. That agency has adopted an incremental price increase plan for senior citizens. At this time, they are introducing the second increment to their Board for a vote. That proposal is to decrease the discount from 45% to 40%. We will carefully watch these actions.

7. A standard, less complex, approach to instructor pay should be developed to promote program self sufficiency and instructor pay equity. Currently ACE offers

incentives to teach multiple courses. This may be potentially counterproductive by providing incentives for the creation of multiple courses which could have reasonably been taught as one.

Management Response: Some of the changes in instructor pay that were introduced in the ACE Redesign at the turn of the century have proven difficult to sustain, and some have yielded unintended consequences. ACE instructors were offered an incentive to teach more hours and more classes for us each term, but a few negative outcomes such as that mentioned above have emerged over the years.

Effective this term, those specific incentives have been eliminated; courses have been reconfigured; and the entire instructor pay system is undergoing an overhaul. The formula for instructor pay is being simplified so that the best features of the old system can be retained, while the known issues are resolved.

Among the known issues is the fragility of a complex system of databases that requires an uncomfortable level of human manipulation. The overpayment of instructors has been resolved at the beginning of this term, and software development is now in progress, with the cooperation of the Department of Information Technology (DIT), Department of Human Resources (HR), and the Payroll Office of the Department of Financial Services. Features of the restructured instructor pay system will include a standard, less complex approach, a higher degree of automation, and resultant higher level of internal control. This system is being developed within OnCourse, our registration and course management system, and will interface with Lawson and enable HR to track back to an hourly pay rate and specific hourly allocations (which is currently not possible).

In addition, the new instructor pay system will feature automated computation of class break-even points, which will be of immense help to program specialists in determining the financial viability of specific classes

8. ACE should consider increasing the use of volunteer instructors. This approach has worked well in Arlington County and in ACE's Adult ESOL program.

   Management Response: ACE employs a large and highly effective system of volunteer tutoring for adult basic education students. In addition, we use volunteers as teaching assistants within a variety of classrooms, such as outreach learning labs for GED prep, and adult ESOL classes. However, we seldom use volunteer instructors as the primary teachers in a course, due to accountability and reliability concerns.

   Not unlike the schools, ACE must have the confidence that our classrooms are run effectively with paid professionals, and that we are providing high quality instructional services that are worthy of the FCPS name.

9. ACE's enrollment base could be expanded by offering courses through distance learning satellite television broadcasts to remote areas of the state. The state has indicated an interest in localities that can host distance learning, especially in ESOL, trades, and apprenticeship programs. Additionally, FCPS has produced a number of K-12 courses in this manner. The production costs could be substantial and

promotion to and coordination with remote localities may be challenging. While this option holds little short term financial reward, it could prove to be beneficial over the long term.

Management Response: This is an intriguing concept, which we have discussed during the course of this review. ACE agrees that the time is not right for an investment of this potential magnitude, which is unlikely to pay off in the short term.

Many years ago, ACE hosted a satellite television studio at our Pimmit Hills Adult Center, and produced short classes for distance learning. This was not a revenue producing venture at the time.

The Virginia Department of Education has given ACE use of a mobile studio for instructional videotaping, and we have created a handful of instructional modules using this technology. ESOL distance education at the lower levels is impractical and pedagogically unsound; at higher levels, it might have some impact. However, this process turns out – in our experience – to be very labor intensive and quite expensive, and likely not the best use of our limited resources at this pivotal time. The concept is worthy of more serious consideration at some point in the future.

10. The online registration capability for adult education classes should be implemented later this year. ACE should determine if online registration would be appropriate for summer school and, if so, associated costs should be subsidized by the Summer School Remediation and Enrichment Program. Additionally, with the implementation of the online registration system, to supplement printed material distribution, ACE should consider increasing the electronic distribution of materials in an effort to reduce printing and postage costs.

Management Response: ACE's online registration system was launched in late July, with very encouraging results. We orchestrated a "soft launch", in an attempt to avoid some of the extreme mishaps that were reported by our colleagues when their capacity was strained and systems broke with the influx of large numbers of registrations simultaneously, when they activated the "switch" for their new systems. Our system performed remarkably well at launch, and our customers have enjoyed a huge increase in level of service, as they have been able to register anytime-anyplace, using a fairly sophisticated system that has been integrated with our OnCourse system.

Our next steps in technological improvement will be the implementation of an automated instructor pay system, and the integration of OnCourse with FSDirect. Meanwhile, we will review educational and business practices and, if viable, develop requirements for implementation of online registration for summer school programs.

ACE has made great strides this year in increasing and improving its online presence, through a much improved website and use of "Keep in Touch" to inform the public of our features and classes. Online registration offers tremendous potential for increasing our visibility, while providing real time data and immediate feedback to customers wanting to register for our classes. The coming months will see increased emphasis on e-marketing by programming staff as well as our marketing group.

Nonetheless, ACE has no intention of giving up our use of print materials. Information in the community education industry indicates that print materials are more important – not less important – in an age of e-commerce, and will continue to serve us well in informing and interesting our public, and then pointing them to our website. Anecdotal information has indicated that programs that dispensed with their print catalogs very quickly went out of business.

That having been said, more judicious use of print materials and printing and posting is certainly in order. Quite recently, ACE was able to convince the U.S. Postal Service to review our mailing status and authorize non-profit mailing status for our catalogs. We are currently reviewing the requirements for attaining periodical status as well.

11. ACE management should minimize the use of persons who work full time in non-exempt Fairfax County or FCPS positions, as the Fair Labor Standards Act requires that such persons be paid at time and a half if they work over 40 hours a week, even if the extra hours are in supplemental ACE positions. There are 36 identified FCPS employees in this category and it is unknown whether any County employees fit this description.

    Management Response: This is an issue which ACE has devoted much attention to this year. Even employees who have non-exempt day jobs which are only part-time are of concern because 1) ACE employment in combination with a part-time job might still add up to over 40 hours a week; and 2) ACE instructors who have non-exempt day jobs must be paid on a per hour basis for *all* hours worked – not just platform teaching hours – and in some cases the time spent in course preparation, lesson planning, procurement of classroom materials, and grading may be considerable. The solution has been to discontinue hiring any additional non-exempt employees into additional-duty work for ACE; and to work toward replacement of incumbent non-exempts in teaching and other additional-time positions.

    Unfortunately, compliance with this interpretation of the Fair Labor Standards Act (FLSA) appears to be a lose-lose situation for all. ACE has employed some highly effective, skilled employees who are in this situation. For example, some of our apprenticeship and trades teachers work for FCPS Facilities Management by day, and teach their trade by night. This provides extra resume benefits for them, and helps us to fill highly specialized teaching positions that are generally difficult to fill. Instructional assistants in some of the elementary schools teach in our Foreign Language Experience (FLEX) program before or after school, thus bringing their language and culture skills to bear on this very popular program, while earning additional part-time income. And some of FCPS's clerical staff are able to earn extra income and add life enjoyment while teaching cooking classes to an appreciative public.

    Our reduced access to these employees, in addition to reduced access to FCPS retirees due to the mandated year break in service, unfortunately have had a negative impact on ACE's programming.

12. A consistent methodology should be developed to determine the appropriate subsidy for the Adult ESOL program. While the program operated at a surplus in FY 2005, and an expected surplus as of June 8, 2006, the State has indicated an intention to change the methodology used to calculate the amount of grant support from a formula based on census data to a competitive format. As a result, we recommend a subsidy be calculated equal to total program costs less tuition and grant revenues with a tuition revenue target of 25% of program costs.

    Management Response: This recommendation would be a tremendous help. Because the ESOL subsidy remained static over a period of many years, during which cost of living and employee benefits expenses rose astronomically, ACE's fiscal equilibrium was severely impacted. Continued assistance to ACE for providing these essential services is essential, especially in light of decreased stability of state funding.

13. Management should consider modifying the funding source for areas of ACE which serve both FCPS and ACE programs as follows:

    a. The ACE Director position is funded out of the operating fund. This does not support ACE as a separate, fee-supported fund. Management should consider charging this position to the ACE fund. The value of the Director's time spent supporting the Summer School Remediation and Enrichment and Adult High School Completion Programs should then be included in the overhead allocation calculation and charged to the operating fund.

       Management Response: ACE disagrees with this recommendation. The ACE Director reports to the Assistant Superintendent for Instruction and serves on her Directors' team. In the ACE position, the Director spends more than half her time in support of programs and personnel that are not in the ACE Fund. It would be inaccurate for the budget to reflect this position as primarily an ACE Fund employee.

       As noted earlier in this report, the Director's Executive Administrative Assistant is paid from the ACE Fund, although her work also is spread out over non-ACE Fund programs as well.

    b. ACE has paid for a database support engineer to serve as project manager for the redesign of the automated registration system. This position reports to the Assistant Superintendent for Instructional Technology. When the registration system is nearly complete, the database support engineer will be reassigned to other non-ACE related projects. Therefore, the position should be funded by the operating fund.

       Management Response: This recommendation was supported in the FY07 budget. Beginning in FY 2007, the full costs, inclusive of compensation and employee benefits, are covered by the transfer in from the school operating fund.

    c. ACE pays for four building use management specialists who work at high schools where ACE has particularly heavy program concentrations. Although these individuals perform a liaison role to facilitate cooperative working relations between the school staffs and ACE, much of the work performed by these individuals has dealt with managing other forms of building use. The specialists work directly for the school principals. The costs associated with these positions should be shared between the operating fund and ACE.

Management Response: This recommendation is well taken. The Building Use Specialists serve on the principals' teams and perform many of the functions formerly assumed by the Director of Student Activities, overseeing and organizing all uses of buildings and grounds, day, night, and weekend, in our busiest high school sites. They schedule the use of the building and grounds for school use, athletic teams, Recreation Department, community organizations, etc., as well as for ACE. In the recent past, our Building Use Specialist at Marshall High School even hosted a highly visible visit from the Governor of Virginia (an activity that did not otherwise involve ACE).

Although it has been a great asset to ACE to have these on-site ambassadors for ACE, more than half of their time is spent on non-ACE responsibilities and functions – yet their salary is wholly paid by ACE customer tuition revenue.

d. Behind the wheel driver education costs are subsidized partially by the state and tuition revenue. All additional costs are absorbed by the ACE fund. As this is a state mandated program that meets a core requirement of K-12 education, costs not covered by other sources should be paid from the operating fund.

   Management Response: This recommendation is also well taken. The state puts a cap on the allowable tuition that can be charged to the customers. With the rising costs of gasoline and automobile maintenance, as well as employee salaries and benefits, the ACE Fund has had to subsidize this program with revenue from other classes. Automobiles for this program traditionally are purchased by the ACE Fund, yet proceeds from their resale go to the general fund and not back to ACE.

Additional Management Comments

ACE appreciates the assistance of the audit group in identifying areas for improvement, as well as the opportunity to comment on these recommendations. There are many fine recommendations herein which will help to guide ACE management in decision-making.

There have been a number of known issues that ACE has been addressing in recent months, with the intention of both reducing expenditures as well as increasing revenue. A Financial Recovery Plan has been implemented, which has included a reduction in positions, increased salary lapses, reduced spending in a number of areas, and more aggressive development of new product lines. In addition, restructuring the organization will provide for more effective program oversight and better alignment of functions. These changes, though challenging, are expected to result in greater financial stability for the organization.