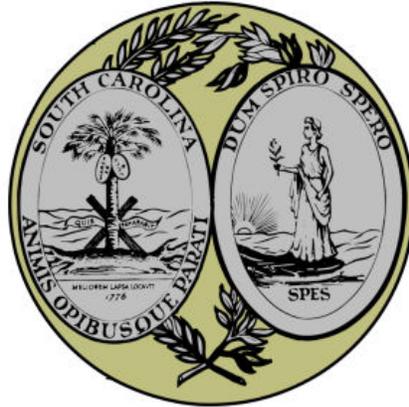


Office of the Inspector General

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**Review of John De La Howe School's
FY 2012-2013 Annual Accountability Report
To Assess Organizational Effectiveness**

I. Executive Summary

This State Inspector General (SIG) review was predicated on information received from concerned stakeholders, community partners, and close associates of John de la Howe School (JDLH) alleging mission drift and operational mismanagement. Initial scoping shaped the issues along the lines of its organizational effectiveness and cost, with cost appearing to be an issue with history. A September 2003 former Governor Sanford's Commission on Management, Accountability, and Performance (MAP) Report noted, "*The school (JDLH)... is greatly underutilized resulting in a cost/student of \$70,000 (annual).*" A 2004 newspaper article described JDLH's annual cost per student as \$43,000, and described, "*Legislators saddled on deciding whether JDLH is an untouchable treasure or just so much government waste.*" Ten years later, the cost/student has risen to \$87,000 annually and questions about JDLH's costs are still circulating. Why? JDLH has no performance management system to demonstrate results in relationship to costs---if you don't keep score (cost effectiveness), you don't know if you are winning or losing. As a result, these lingering issues float along without firm resolution.

The South Carolina state government requires each state agency submit an Annual Accountability Report (AAR). The AAR facilitates Agency Heads, who have different levels of organizational training and experience, to apply a common generally accepted organizational management framework (Baldrige Criteria for Performance Excellence) to meet their executive responsibilities. The AAR is a strategic plan to create focus and critical thinking on how to optimally implement a conceptual mission to produce a **cost effective** service. The optimal balance of low cost and maximum results don't happen by themselves—it requires intentional, disciplined, and evidenced based management to 1) hone the right mission to provide direction; 2) select the right measurable strategic objectives for lower level managers to target by coordinating and focusing their work processes; 3) build the right measurement capabilities so executive management can determine if strategic objectives are being accomplished; and 4) feed measurable strategic objective results back into the organization so lower level managers can adjust work processes to continually hone costs and quality of service.

The FY 2012-2013 JDLH AAR provided descriptive data of operations, tasks, projects, and initiatives, but lacked measureable data to discern mission effectiveness. This has been a traditional blind spot for all levels of government, to include South Carolina state government, to measure activity rather than the more difficult management process of selecting key strategic objectives to achieve its mission and then building a measurement system to track progress. The JDLH did set forth three performance tools [Strategic Plan; Continuous Quality Improvement Process; and Progress in Treatment Report] to manage operations, yet each was not functioning in FY 2012-2013. This was due to rolling forward the prior FY 2011-2012's AAR without verifying these systems were still used, which they were not.

No doubt, JDLH managed operations throughout the year, but it had no evidence of a rigorous management process to measure progress towards accomplishing its mission, which can best be inferred from its objectives set forth in its mission statement: cost effectiveness; behavioral improvement; academic improvement; and successful re-entry of students in their respective local schools and families. Without the benefit of AAR data, the SIG collected information relevant to JDLH's mission objectives to approximate a strategic plan to measure effectiveness. Two objectives, behavioral improvement and successful re-entry to their local school and family settings, were not measured by JDLH. Two objectives, cost effectiveness (\$240 student cost/day) and academic success (rated "at risk" in state accreditation process for past three years) had relevant data, although unfavorable, which were also not included in the AAR.

The SIG, nor anyone, is questioning JDLH's desire and focus on helping children in need, and the SIG's file reviews fully support these children are in distress needing help. The core issue is JDLH did not use generally accepted management practices to carry out this noble mission which has resulted in not fully understanding their

abnormally high student cost/day and JDLH has not implemented outcome measurements of its treatment protocols, an industry standard. Given the plethora of behavioral treatment options, JDLH has an affirmative duty to taxpayers, as well as to the children served, to demonstrate its treatment protocols are operating in a cost effective manner.

During the SIG's data collection to understand available measurements impacting JDLH's strategic objectives, a number of positive attributes were identified. It is clear JDLH's mission is well situated on the continuum of child care spectrum serving a customer group in need—private citizen child placements generally from at risk youth with behavior problems impacting failure or expulsion from middle, high, or alternative schools. Its on-campus school, unique in South Carolina, distinguishes JDLH to serve at risk youth with difficult behavior problems in a residential setting; however, it still must focus attention to resolve its “at risk” accreditation rating. Its student cost/day was abnormally high (\$240), but this was a function of facility underutilization (FY 2012-2013 average 54 students) and not its operational cost structure. As its enrollment approaches capacity (116 students), its estimated student cost/day (\$136) would be likely better than its South Carolina peer providers estimated in the range of \$150 - \$169. The reasons JDLH's costs are so much higher than a traditional public school (\$32 student/day) is because it is a behavior treatment facility; its school is a component of its treatment plan. It has also demonstrated progressive treatment through a recently deployed evidence based treatment logic model centered on collaborative problem solving. Even with these encouraging attributes, it still must maximize its efforts, as well as taxpayer resources, by moving to a more rigorous, evidence based management process that ensures focus on cost and outcomes, which then can be fed back into operations to create a continuous improvement environment.

The SIG is confident JDLH has the potential for a bright future. However, in a budget environment becoming increasingly competitive for finite state resources, JDLH can't take for granted taxpayer funding without demonstrating cost effective results. The American Association of Children's Residential Centers, which JDLH is on the board of trustees, succinctly sets forth the thrust of this report in a recent industry position paper, *“Generating and understanding the meaning of data is not separate from doing good work - it is the core of knowing how good our work really is! Embracing the challenge of adapting our practices based on the data to make improvements increases our credibility. Having data that reflects well on our work and shows effectiveness can convince policy makers of the criticality of our role. Shifting to outcomes based practice in the field will build trust between us, those we serve, those who pay for the services, and community stakeholders.”*

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II. Background

A. Objectives

This SIG review was predicated on information received from concerned stakeholders, community partners, and close associates with intimate knowledge of John de la Howe School's (JDLH) day-to-day operations alleging mission drift and operational mismanagement. The initial information was provided to the SIG through its "hotline," which then led to others with similar complaints. Specific allegations included multiple years of JDLH's school rated "at risk"; lack of a strategic plan; no established methodology to track the results of its programs in order to determine their effectiveness; high employee turnover and low morale; student enrollment is "stagnant at best" and underutilization of student facilities; non-existent record keeping system for tracking students' progress and activities; and leadership direction. SIG scoping interviews determined JDLH has been under scrutiny for many years pertaining to its perceived high cost of operations and underutilization of the school. The September 2003 former Governor Sanford's Commission on Management, Accountability, and Performance (MAP) Report noted, "*The school (JDLH)... is greatly underutilized resulting in a cost/student of \$70,000 (annual).*" The SIG's analytical review of JDLH's Annual Accountability Report (AAR) raised further "red flags" on how it executes its mission.

Given the number of operational issues alleged and the overriding themes of effectiveness and cost, the SIG initiated a "top down" review focusing on JDLH's FY 2012-2013 AAR with the following objectives:

- Verify accuracy of data recorded in the school's AAR;
- Collect relevant data to fill gaps, if any, in JDLH's AAR, and then assess the school's Strategic Plan (mission, objectives, execution strategies, and results), which provides a barometer of organizational effectiveness; and
- Identify opportunities to improve.

B. John de la Howe History

JDLH was established in 1797 according to the will of Dr. John de la Howe, who settled near New Bordeaux, South Carolina. According to Dr. de la Howe's will, his estate of 2000 acres in McCormick County was left to the state to care for 12 poor boys and 12 poor girls in a school based setting with preference to be given to orphans. Following Dr. de la Howe's death, the Lethe Agricultural Seminary (LAS) was established and for years provided the learning environment for poor and orphaned children that Dr. de la Howe had envisioned.

Following the Civil War, the LAS faced financial difficulty and closed from 1882 until 1894. It was then reestablished and operated successfully for nearly 20 years. Declining enrollment required it to close again in 1913.

In 1918, the LAS became a State supported agency, at which time it was renamed the John de la Howe School (Title 59 – Education; Chapter 49; Section 10). The purpose of the school in accordance with the will of John de la Howe, is... "First, the establishment and maintenance of an agricultural and mechanical school...second, the training, free of charge, of 24 boys and girls...in the beginning of school life...and third, the like training of the children of the neighborhood not supported by the fund."

JDLH had an enrollment as high as several hundred children during the latter half of the 1900s, who were either orphans or children from distressed family situations who benefitted from this unique group home environment.

This period was viewed by many as its high water mark of filling a critical need, as exhibited by a dedicated alumni association providing many anecdotal stories and web postings of how JDLH provided a vital role in taking care of needy children in South Carolina.

JDLH's current mission has moved away from a large group home for orphans or needy children to a more focused mission of serving as a behavior treatment facility for at-risk youth in a congregate care setting. JDLH generally targets helping children with significant behavior problems who have or are nearing being failed or expelled from middle, high, or alternative schools through treatment with the goal of successfully reintegrating them back into their local school and family. JDLH had a number of strategies to improve behaviors to include behavioral health services to meet the individual emotional health needs of children; daily living skills development through cottage/camp life; academic instruction, to include experiential learning; job skills training; and providing primary health care through medication administration & monitoring chronic conditions. Students came, stayed on an average of seven months, and then returned home. Personal observation during SIG field work revealed a passionate staff dedicated to helping children.

More than thirty percent (30%) of the students have been expelled from their local school district as a result of inappropriate behaviors in the school setting; more than sixty-five percent (65%) have documented physical and sexual abuse; and approximately eighty-five percent (85%) are prescribed some form of psychotropic drug. The SIG reviewed 15 current student files, which revealed, without question, these students had substantial behavior issues. The students, as well as their families, were in high levels of distress and despair. These students seemingly were on the edge of a downward life trajectory without help and intervention.

In FY 2012-2013, JDLH total expenditures were \$5,409,961. Total expenditures less capital expenditures of \$468,409 and \$207,741 restricted funds for scholarship payments for JDLH graduates (McCann Scholarships) left \$4,733,810 in operational expenditures. JDLH maintained a campus containing approximately 50 buildings on 1200 acres. JDLH had a staff of 81 employees at fiscal year-end. JDLH averaged 54 overnight student enrollment throughout the year. On average, 44 students attended traditional classroom academic training and were housed in campus cottages; 10 middle school boys were in a Wilderness Program living in cabins in the woods with emphasis on experiential learning. The average student cost/day was \$240. In addition to the 54 overnight students, JDLH also served as Abbeville County's alternative school, which placed, on average, five day students at the school.

During the past several years, JDLH has been improving its facilities, particularly student living quarters, to give it an opportunity to return to full utilization of approximately 116 students, which would lower its cost/student ratio. Although the review pertained to the FY 2012-2013 AAR, it should be noted enrollment has increased to 64 overnight students (19% increase) during the first quarter of FY 2013-2014 as a direct result of JDLH's efforts to rebuild capacity.

C. Diminished Role for Congregate Care Facilities

Over the past 20 years, Federal law and best practices have dictated that children in foster care be placed in the least restrictive and most family-like environments that are capable of meeting the child's needs. Federal law requires that states make "reasonable efforts" to keep children and youth with their families thereby reducing the risk of harm to those children. The next alternative is foster family care which provides individualized attention to a child in a normalized family setting and increases a child's likelihood of achieving permanency.

Some children in foster care express difficult behaviors due to extreme physical and mental trauma resulting from abuse or neglect. Congregate care is considered a necessary and important part of the foster care continuum. When used appropriately, congregate care placements provide children with the structure and treatment services

they require. However, contemporary social work philosophy holds that congregate care should never be considered a long-term placement for any child; rather, it should be used to deliver critical, time-limited therapeutic services while caseworkers plan for the child's reintegration into a family setting as soon as possible. In short, the general institutions, like orphanages of the past, have been diminished within the modern continuum of child welfare placements.

As a result, congregate care facilities have undergone restructuring over the past decade in re-tooling their capacity to other types of services and away from traditional long-term congregate care. This has also resulted in excess capacity of congregate care facilities in South Carolina, most of which are private, non-profits with a religious affiliation and support.

The congregate care industry restructuring appeared to provide the impetus for JDLH to move away from its roots of a several hundred youth facility towards its current mission as a behavioral treatment facility for at-risk youths. The SIG has not been able to determine from data if JDLH's mission shift was planned. As a result, the best evidence is its current mission is more of an incremental evolution.

III. John de la Howe 2012-2013 Annual Accountability Report

A. Annual Accountability Report Program Background

South Carolina state government requires each state agency submit an AAR to the Governor and General Assembly containing the agency's mission, objectives to accomplish the mission, and performance measures and results that show the degree to which objectives are being met, along with other leadership activities supportive of organizational excellence. The AAR facilitates Agency Heads, who have different levels of organizational training and experience, to apply a common generally accepted organizational management framework (Baldrige Criteria for Performance Excellence) to meet their executive responsibilities. The Baldrige Criteria helps the organization identify its key strengths and key opportunities for improvement. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, and **how it will know if it is successful** (SIG emphasis), with a focus on the future.

B. Analysis of JDLH FY 2012-2013 Annual Accountability Report

JDLH's most recent AAR was for FY 2012-2013. The AAR described its overarching mission to provide behavior treatment in a cost/effective approach to improve behavior, improve academics, and successfully re-enter students back into their local school and family (see web link <http://www.scstatehouse.gov/reports/aar2013/112.pdf>). JDLH then set forth seven "key objective goals":

- Create a fully integrated student-centered and family-focused therapeutic program;
- Develop a mutually supportive, people-oriented culture focused on understanding and meeting the therapeutic needs of students and families;
- Create an image of pride;
- Increase public understanding of the overall mission, vision and values of the school and its program offerings;
- Formulate and deploy an integrated data strategy and framework for quality improvement in behavioral health care and education services that will disseminate outcomes/results, inform policy, measure program impact and lead to improved quality of services and outcomes for individuals, families and communities;
- Develop innovative partnerships to promote and enhance the mission of John de la Howe School; and
- Education Development.

JDLH set forth its major achievements as follows:

- Move to single gender classes – change instituted;
- Development of career education - exposed students to career opportunities;
- Media Center made more accessible – made fully operational;
- White boards installed;
- Implemented Think: Kids Training – Engaging kids in collaborative problem solving;
- Inspections and Audit – indicated met or exceeded inspections/audit for facilities;
- Mind Set Training – Direct care staff completed training on prevention, de-escalation and physical containment program;
- Best Notes training initiated on Customer Relationship Management System;
- Facility Repairs – renovations completed on six cottages; 10 of the 12 cottages were licensed;
- Outreach – expanded outreach efforts to families, and to market services to other schools/entities;
- JumpStart & Habitat Partnerships – labor resources to assist with upgrades to 12 cottages;
- Grants and other Charitable Giving - indicated secured \$40,000 (\$22,000 from Self Foundation);
- Day Student Enrollment - indicated an average of 18 students from Abbeville County School District, which is a partnership to accommodate their alternative school students provides additional funds that are leveraged toward the agency education program; and
- Advancements in Behavioral Health – Clinical therapy program fully staffed, service provided to four students a day.

The “key objective goals” and major achievements certainly seem logical to move JDLH in a direction to improve services. However, the JDLH AAR did not provide any data to answer the question whether JDLH is achieving its mission of cost effectiveness, improved behaviors, improved academics, and successful re-entry. This has been a traditional blind spot for all governmental agencies, to include South Carolina state government, to think narratively describing activity, tasks, and initiatives equates to mission accomplishment. The appropriate, and much more difficult, management approach requires selecting key strategic objectives to achieve its mission, and then building a measurement system to track progress to see whether, and to what extent, the “activity, tasks, and initiatives” are actually working.

The AAR is designed to bring emphasis on measuring results to demonstrate progress on an agency’s mission. The JDLH set forth three performance tools [Strategic Plan; Continuous Quality Improvement Process; and Progress in Treatment Report] to manage operations, yet each was not functioning in FY 2012-2013. This was due to JDLH rolling forward the vast majority of the prior FY 2011-2012 AAR into the current FY 2012-2013 AAR without verifying these systems were still used, which they were not.

There is no doubt JDLH managers held meetings, coordinated, executed tasks, and all the things managers do to operate an agency to add value. Day-to-day verbal leadership and direction, contemporaneous meetings, and formal meetings with agendas all have vital roles in managing an agency. The problem of total reliance on this approach, without integrating formal performance measurements such as a strategic plan with objectives and measurements, lulls managers into planning and decisions based on intuition, anecdotal and fragmented data, often with a short-term focus. This informal approach has proven to be inferior to an evidence based, systematic approach. An evidenced based approach, as set forth in AAR guidance, ensures an agency is on the right target (strategic plan), and its strategy and execution are progressively closing on the target in a measurable way, and results data is fed back into the organization to promote a continuous improvement environment.

The SIG, nor anyone, is questioning JDLH's desire and focus on helping children in need, and the SIG's file reviews fully support these children are in distress needing help. If the following data from a former student on an Internet web site could be harnessed in a rigorous, quantitative manner, it would resolve much of the debate surrounding JDLH, *"I was placed here when I was 14 years old because of behavior problems. I was lost, and don't know how to thank the staff members who helped save me from a life of jail, drugs, or God only knows what I would have become. Now, I am a mother of 2 and believe that JDLH saved my life [class of 1994]."* Data may well exist to demonstrate JDLH's mission accomplishment, but JDLH did not have an operational performance system in place during FY 2012-2013 to glean this data expected by oversight and taxpayers.

The core issue is JDLH did not use generally accepted management practices to carry out this noble mission which has resulted in not fully understanding their abnormally high student \$240 cost/day (see IV-D-2) and JDLH has not implemented outcome measurements of its treatment protocols, an industry standard. Given the plethora of behavioral treatment options, JDLH has an affirmative duty to taxpayers, as well as to the children served, to demonstrate its treatment protocols are operating in a cost effective manner.

IV. Measurement Data on Mission Related Strategic Objectives

The JDLH AAR did not provide measurable data on mission effectiveness through related strategic objectives of cost effectiveness, behavior improvement, academic improvement, and re-entry success. As a result, the SIG collected available data on each objective and overall mission to approximate a strategic plan, effectiveness, and identify areas to improve.

A. Mission

The non-medical (includes extreme emotionally disturbed) congregate care industry generally has two customers and two levels of service. The two customers are state child welfare agencies, such as the Department of Social Service (DSS) and the Department of Juvenile Justice (DJJ), and private citizens, principally parents. Level I service is for children with minor behavior issues and Level II is for moderate emotional distress. Currently, JDLH would be best categorized as a Level II facility serving primarily private citizens; parent(s) pay 1-2% of costs and the state pays the residual. State child welfare agencies place the majority of their children in private non-profit facilities; the state pays a rate of \$85-\$94/day and \$97-\$110/day for Level I and Level II placements, respectively. The state child welfare agencies have a well-honed fixed contract price with over 80 vendors throughout the state, so children can be placed as close to family as possible consistent with child welfare practices. JDLH serving as a statewide Level I facility is undermined by child welfare practices to keep children as close to home as possible, as well as the state already has very favorable contract rates lower than actual cost inasmuch as private non-profits offset some costs through charitable fundraising.

Despite JDLH disadvantages of serving state welfare agencies Level I children, it is perfectly situated to serve Level II children. First, Level II children, as one expert advised, "struggle" in public schools due to their emotional distress, and JDLH has the only on-campus school setting with specially trained teachers which is highly advantageous. Second, JDLH is the only facility fully servicing private citizens with children (private placements) having Level II behavior problems. Medicaid and private insurance are problematic, and even if there is coverage it will likely still require substantial expenses inhibiting many families from pursuing needed treatment. Non-profit Level II facilities used by state child welfare services shy away from accepting direct placements at no cost, and tend to look to JDLH to fill that need.

Based on this analysis, JDLH seems to be exactly where it should be within the continuum of services to children in need: private placement of students with moderate behavior problems who have or are nearing being failed or

expelled from middle, high, or alternative schools. However, this narrower operational mission is not necessarily clearly understood by all stakeholders which manifests in a number of areas. First, SIG observed a level of dissatisfaction or ambiguity by community, alumni, and employees who did not understand the Federal initiatives diminishing congregate care industry underpinning JDLH's shift from its orphanage type roots to at-risk youth. Second, JDLH seemed to be pursuing increasing enrollment by obtaining children in the care and custody of DSS to attend JDLH, however this may not be appropriate, particularly Level I children, for aforementioned reasons. Third, JDLH's marketing techniques, such as radio advertisements, appeared to be wide net approaches, rather than focused approaches through the Department of Education (DOE) and local school districts to identify and directly recruit/access the 5300 drop out students and 1800 expelled students annually. Refining JDLH's mission may enhance ability for management to clarify subordinate organizational objectives, strategies, and metrics to measure success, all of which sharpens employees focus on aligning their actions to mission accomplishment.

B. Behavior Improvement & Successful Re-Entry

JDLH deploys a multi-dimensional approach to improve at risk youth behaviors. JDLH provides behavioral health services to meet the individual emotional health needs of children; daily living skills development through cottage/camp life; academic instruction, to include experiential learning; job skills training; providing primary health care through medication administration & monitoring chronic conditions; and provides an overall nurturing environment using a logic model emphasizing collaborative problem solving.

JDLH establishes an individual development plan with each student upon arrival. Upon discharge, this plan is updated showing the student's progress while at JDLH. This improvement data at the student level was not integrated into a framework at the agency level for management to systematically understand the student population overall improvement, as well as serve as an analytical tool to discern areas of strength, weaknesses, and areas requiring attention. JDLH had a "Progress in Treatment Report" discontinued during FY 2009-2010 due to budget issues, which integrated metrics for each student from teachers, behavioral therapists, and resident counselors on a predetermined rating scale for cottage life; academics; school conduct; counseling; homestay; activity therapy/service learning; percent achieving progress; and percent achieving success rating. Although not currently operational, this "Progress in Treatment Report" was exactly on point with a basic JDLH organizational need to integrate its variety of front-line operations into a common format. This format provides executive management visibility into assurance of mission execution, along with necessary metrics to facilitate management decision making and performance management processes.

JDLH does not measure outcome progress after students return to their home and school. This can be accomplished through survey instruments and interviews of the students, parents, and school administrators at a variety of time intervals. Certainly measuring improvement behavior outcomes while at JDLH is important information, but the ultimate mission accomplishment is successful re-entry at home and school.

Measuring outcomes, both while at JDLH and back home, addresses the heart of mission accomplishment by asking the question, "Did we make a difference?" There are challenges and costs in collecting this data, but the option of not collecting, by industry standards, is not appropriate. Students and taxpayers have a need to understand youth residential treatment success rates and cost effectiveness. Outcomes address mission accomplishment questions, but also identifies areas in which to make practice, program, and system improvements.

Measuring outcomes is a fundamental management practice, which South Carolina state government has formalized with the AAR criteria. The SIG fully recognizes and appreciates JDLH's trials over the past several years recovering from the FY 2010-2011 budget cutbacks, as well as addressing delayed maintenance for a period

of years. Certainly, addressing this short-term reactive needs consumes management attention, but it does not obviate the fundamentals of management which JDLH’s industry fully recognize. The American Association of Children’s Residential Centers (AACRC), of which JDLH is on the board of trustees, published results from its 2010 national survey of providers with this summation in the abstract, “*The growth and sustainability of residential treatment as a viable service option may depend upon the field’s willingness to track results, partner with families and the youth they serve, and to make themselves accountable to all stakeholders in the children’s services system.*” AACRC recognized the need to stimulate change in its industry leading to publishing 10 policy papers (http://aacrc-dc.org/public_policy), which generally push its industry in the direction of a higher level of accountability using evidence based practice and management through outcome measurements, as well as internal process measurements.

C. Academic Improvement

The AAR indicated that JDLH was an accredited school delivering core curriculum education. However, the AAR did not denote JDLH had been placed on probationary status by the State Board of Education (SBE) as a result of being deficient in meeting the minimum accreditation standards for three or more years. Probationary status indicates that serious deficiencies exist and the school will lose its accreditation unless the deficiencies are satisfactorily removed before the next school year. The SBE cited JDLH for two violations in the 2012-2013 AAR: (1) the Strategic/School renewal Plan was not submitted by April 30 for 2011 and 2012; and (2) the Superintendent was not properly certified. Additionally, JDLH was advised of three additional issues: (1) the services of a media specialist are inadequate; (2) two staff members are not properly certified; and (3) one staff member does not hold a South Carolina teaching certificate.

JDLH also received “Below Average” or “School at Risk” rating over the past three years in the SC Annual School Report Card. The Annual School Report Card rated the school on adequacy of Yearly Progress that specifies that the statewide target is met for “All Students,” in the areas of English/Language Arts and Mathematics, as well as meeting the statewide target for “All Students” for attendance or graduation rate. Additionally, JDLH did not take follow-up actions to these scores as required in the Code of Laws, section 59-18-1500 to 1600.

JDLH received the following Report Card ratings for FY 2010-2013:

Year	Absolute Rating *	Growth Rating**
2013	School at Risk	School at Risk
2012 ***	N/R ***	N/R ***
2011	Below Average	School at Risk
2010	Average	Average

*Absolute Rating: a value of the school’s level of performance on measures of research-based factors associated with student success during the school year;

**Growth Rating: level of growth in academic performance when comparing current performance to the previous year's performance; and

*** JDLH did not submit a 2012 Report

Certainly, the high turnover of school principals and recovering from major budget cuts in FY 2010-2011 likely played a role in this issue. Still, the lack of testing measurable student improvement results and a strategic plan were the key factors in these “at risk” ratings. Not addressing these issues in a timely manner erodes credibility of the agency and its other activities.

D. Cost Effectiveness

There are two factors to understand JDLH's costs. First, identify the costs of comparable congregate care providers within its industry. Second, calculate JDLH's FY 2012-2013 costs, and then compare to industry comparables.

1. Environmental Scan of Similar Congregate Care Providers

At the outset of this review, JDLH presented a \$79/day student cost to the SIG. The methodology used to compute this figure was inaccurate. Their calculation assumed every student served (139) resided at the school for an entire year (365 days), which was not the case. Closer examination determined JDLH had an average overnight enrollment of 54 students throughout the year. A fair estimate for FY 2012-2013 was \$240/day (see IV-D-2 below), nearly three times JDLH's computed cost/day.

JDLH asserted it was so unique in its behavior treatment, on-campus school, and location there were no comparable facility for an appropriate comparison. After scanning the industry, there was merit there was no exact "apple to apple" comparison, primarily due to JDLH's unique on-campus school. However, an environmental scan of a well-defined industry of congregate care service providers did create a framework to facilitate more than an adequate general cost comparison to fuel JDLH's strategic planning.

A 2004 newspaper article described JDLH's annual student cost at \$43,000, which was "*25 times more than the average school district.*" This was an unfair comparison and illustrates some of the confusion over assessing JDLH's cost structure. JDLH is a behavior treatment facility, and its school is a component of its treatment plan. Its behavior treatment congregate care facility has a cost structure completely different from a traditional 8am-4pm, Monday to Friday school. A fair comparison is using the congregate care industry, and then attempt to incrementally adjust based on differences between these facilities and JDLH.

The state has at least 70 congregate care providers which are generally private, non-profits. In addition to these facilities streamlining their operations over the past decade in response to their diminished role in the modern continuum of child welfare placements, the two major consumers of congregate care services, DSS and DJJ, both enhanced operational efficiencies through competitive contracting. DSS contracts with congregate care facilities based on four levels of service (cost/day):

- Level I -- minor, less serious behavioral problems (\$85/day);
- Level II -- moderate emotionally stressed or disturbed (\$97/day);
- Level III -- extreme emotionally or disturbed behavior (\$150/day); and
- Level IV -- Psychiatric Residential Treatment Facility -- medically treated behavior with medical staff on-site (\$280/day).

(contract web link - <http://webprod.cio.sc.gov/SCSolicitationWeb/contractSearch.do?solicitationnumber=5400002885>)

The DSS contracts with 28 Level I and 12-15 Level II facilities. The SIG visited two Level I facilities. Both facilities had aesthetic surroundings parallel to JDLH. The differences were the children attended public schools as opposed to JDLH's on-campus school, and, obviously, JDLH had a more robust behavior component given their Level II students. The DJJ also contracts with congregate care facilities, also known as group care, at three levels (cost/day):

- Independent Living Service (\$86 to \$94);
- Intermediate Services (\$74 to \$120); and
- Intensive Services (\$166 to \$209).

(contract web link - <http://webprod.cio.sc.gov/SCSolicitationWeb/contractSearch.do?solicitationnumber=5400002734>)

DJJ primarily contracts with 10 wilderness program facilities (web link <http://www.state.sc.us/djj/wilderness-camps.php>). Based on interview, DJJ pays approximately \$110/day for Intermediate Services, which is equivalent to DSS Level II. The SIG visited a DJJ wilderness program facility, which was marketed as a Level II facility and charged \$108/day for services. This technically met the same requirements as JDLH (behavior treatment protocols; on-campus school; Level II supervision; and six to twelve month attendance). However, the differences were obvious in terms of aesthetics inasmuch as the entire DJJ facility was a wilderness program, and its behavior protocols were more a “boot camp” approach rather than JDLH’s robust whole family approach. Despite the significant differences in aesthetics and behavior protocols, the real issue was the difference in results. There are differences in cost, logic model, and behavior treatment approaches, but the ultimate equalizer is results. DJJ tracked its students’ outcomes, while JDLH did not.

Through the discipline of contract procurement, the congregate care “market pricing” appears well defined in dollars, as well as specific performance expectations set forth in DSS and DJJ’s fixed price contracts. Despite the volume of congregate care facilities, market forces through DSS and DJJ contracting simplify the analysis. Certainly within categories, there are degrees of differences in attributes but the pricing is relatively fixed.

A convoluting factor in the analysis was that JDLH had not availed itself to compete within the DJJ and DSS congregate care contract market. As a result, both agencies are fully aware JDLH exists, but both agencies work off their approved contractor list of facilities for placements undermining referral potential to JDLH. Even though JDLH has not been classified through the contract process, it would be considered a level II facility given its students’ profiles and emphasis on treatment of behavior in at-risk youth. A JDLH executive commented that JDLH often receive students whose behavior is not tolerated in a typical non-profit congregate care facility (Level I).

Perhaps the best evidence developed came from a subject matter expert on the South Carolina congregate care industry. This expert advised that DSS and DJJ Level II contract prices \$97 (DSS) and \$110 (DJJ), respectively, are discounted rates rather than a full cost allocation. The rationale was the South Carolina non-profit congregate care industry raise \$28 million a year through fund raising which allows it to offset a portion of its costs. This expert was familiar with JDLH and advised a \$240 per student day cost seemed excessive and \$150 would be more reasonable for Level II services.

A Level II non-profit facility Director, with extensive experience and highly respected by DSS, provided unique insight and comparative data. The Director confirmed there is no Level II facility with an on campus school similar to JDLH in South Carolina. This Director’s Level II facility costs \$50,000/year (\$137/day) for each student, of which DSS pays \$97/day and the difference is from charitable donations. Six students live with house parents trained in the program’s treatment logic on a scenic campus with a central administration building and ball fields. The facility has its own staff behavior therapists to treat the children. The children attend public school and are provided tutoring after school to improve grade level performance. The Director noted that having an on campus school with specialized teachers, such as JDLH, would be highly advantageous for Level II students, because these students struggle in public schools. A high cost state public school district would be approximately \$12,000 per year or \$32 per day, which is higher than JDLH’s FY 2012-2013 budgeted school costs capable of servicing a maximum capacity of 116 students (\$1,037,684; \$25/day). Taking this Level II provider cost of \$137 and adding the cost of student attending a high cost public school district (\$32) arrives at a cost of \$169.

Given the environmental scan, JDLH’s \$240 cost/day (see IV-D-2 below) appears excessive. However, in a best case scenario where JDLH obtains maximum enrollment (116), a simple cost projection model results in an estimated \$136 cost/day (see IV-D-2 below) which is well within the “ball park,” if not lower, of Level II facilities, particularly given its on campus school. The current JDLH excessive cost (\$240) seems to be a function of

underutilization and not of cost structure. At full utilization, this estimated cost (\$136) seems very reasonable for Level II behavioral treatment at a congregate care facility with a school.

Despite the above analysis pointing to the likelihood JDLH's cost, if it raises enrollment to near full capacity, seems reasonable within its industry, JDLH was still dismissive of the analysis because there is no "exact" comparable to JDLH. The SIG reminds JDLH that strategic planning requires relevant information, not perfect information which rarely exists. The lack of an "exact" comparable does not negate the need to understand its costs, conclude on reasonable costs as budgeted targets, and then execute with specific targets in mind. The SIG is sure with JDLH's unique industry contacts, it will be able to develop better comparable data to establish cost estimates. Not attempting to establish cost estimates from environmental scan or other sources will inherently result in higher costs because a benchmark has not been established to manage towards. It is this inability to bring clarity and rigorous management to operations that is the thread running through this report and seems to be frustrating oversight.

It was noted any 24/7 congregate care behavior treatment program involving youth carries a high cost, particularly the staff cost of always maintaining a ratio of one staff supervising eight students around the clock. This 24/7 component of an overall behavior treatment program brings with it a "high" price tag. The expectation of a "high" price treatment model is an expectation of improved behaviors. Therefore, it is useful to understand JDLH's cost structure, but the historical emphasis on cost/student can only be put into context with outcome measurements in improved behavior. With rigorous improvement data, then a rational comparison can be made with JDLH's cost structure and results from other programs with a variety of service delivery options.

2. JDLH Costs

An assessment JDLH's cost effectiveness in FY2012-2013 required understanding of the following five factors:

- For FY 2012-2013, total expenditures were \$5,409,961. Total expenditures less capital expenditure of \$468,409 and \$207,741 restricted funds for scholarship payments for JDLH graduates (McCann Scholarships) left \$4,733,801 in operational expenditures.
- For FY 2012-2013, the average number of students residing overnight at JDLH was estimated at 51.8 based on average overnight students at the beginning of the FY and at the end of each FY quarter (low 48; high 54). To place JDLH in the best possible light, all calculations will assume a 54 (high quarter) average overnight enrollment which is composed of 44 campus students and 10 wilderness students.
- Given JDLH's current infrastructure, maximum enrollment capacity was 96 overnight campus students (12 cottages X 8 students) plus 20 wilderness students (2 camps x 10 students) for a total of 116 students. Although cottages have a capacity as high as 12 students, each cottage was limited to eight students inasmuch as eight was the maximum, based on state regulations, a single resident counselor may supervise. Adding a ninth student to a cottage would require hiring another resident counselor for the cottage, which was deemed by JDLH as cost prohibitive.
- In FY 2012-2013, the JDLH average academic school enrollment was 59 (44 overnight on campus students; 10 wilderness students; and 5 Abbeville alternate school day students). JDLH's current academic staff has the capacity to serve 116 students without the need for additional staffing.

- Abbeville County paid JDLH \$55,000 to serve as the county's alternative school. Using the same methodology for overnight students, JDLH averaged 5 day students (low zero; high nine). Given JDLH's full academic staffing up to 116 students, the incremental costs for these five students is well below \$55,000 and a full cost allocation of proportional academic staff is still estimated below \$55,000. As a result, Abbeville alternative students are considered, conservatively, to have a revenue neutral impact on JDLH operations.

JDLH's refurbishing student cottages during FY 2012-2013 prevented availability of full overnight capacity of 116 students (96 on campus; 20 wilderness program). Its FY 2012-2013 overnight student average of 54 represented a 47% capacity of its potential (116). JDLH has a large fixed cost structure in terms of staff and costs to maintain operations on a 1200 acre facility with approximately 50 structures. As a result of its large fixed cost structure and 47% capacity student level, the FY 2012-2013 student cost/day was \$240 (\$4,733,801 divided by 54 students divided by 365 days). JDLH noted it used FY 2012-2013 operational expenses to fund delayed maintenance and facility improvements, which could potentially further reduce the \$240 cost/day in subsequent FYs.

During the upcoming FY 2013-2014, JDLH can add 62 students, representing the current 53% unused capacity, without the need, according to JDLH, to add any additional staff for academics, maintenance, or front office staff. Using a simple cost projection model, the incremental costs associated with this increased student enrollment would only be for the residential counselor staff, who supervise the students 24/7 and the cost of meals for these students. If 62 students were enrolled to reach capacity of 116 students, it was estimated to require 26 additional staff at a cost of \$864,000 and \$185,000 in meal costs for a total of \$1,049,000. The average cost/student for FY 2012-2013 of \$240 can be driven down with a full capacity of 116 students to an estimated \$136/day (\$5,782,810 divided by 116 students divided by 365 days), which is a 43% reduction. Filling the 53% unused capacity without the need for expenses for other than residential counselors and food likely is highly optimistic, but an estimated \$136/day student cost was below peer Level II facilities adjusted to account for JDLH's on campus school.

V. Oversight

JDLH is a standalone state agency provided oversight by a Board of Trustees (BoT) containing a Chairperson and eight other Trustees, all appointed by the Governor. Currently, there are only six board members, with four starting on July 18, 2013. In general, the role of a BoT is to provide oversight, as well as support, to ensure the agency is achieving its mission. In order to achieve this fundamental fiduciary duty, a reporting structure should be developed so staff, led by the Agency Head, provides relevant and timely data on the agency's objectives, strategy, execution, and results. The state requires agencies to annually complete an AAR, which provides a common framework to guide Agency Heads developing this type of organizational assessment to discern the level of mission achievement and issues impacting mission accomplishment.

There is no doubt JDLH leadership is committed to help its at-risk students every day. The SIG has great appreciation for volunteer Commissioners being responsible for the success of an entire state agency, particularly one such as JDLH still recovering from the FY 2010-2011 budget cuts and the challenges of the de-emphasis on congregate care homes. The state provides some support through its mandated AAR as guidance, but with no training, review, or feedback, the AAR's functionality is highly suspect and problematic. Nevertheless, the issues confronting JDLH today are directly connected to a lack of agency oversight to establish a strategic plan consistent with guidance set forth in the AAR. As a result, the agency is in an awkward position with external stakeholders questioning its perceived high costs without a clear understanding of its effectiveness through outcome measurements. JDLH does not have the management infrastructure to collect this type of data needed to assess

organization effectiveness, which also undermines its ability to stimulate continuous improvement and taxpayer confidence to control costs and improve quality of service.

JDLH should not be singled out in its material deficiencies in its AAR inasmuch as many involved in the state budget process reviewing AARs see this pattern, in varying degrees, all too frequently. This has been a traditional blind spot for all governmental agencies to measure activity rather than the more difficult management process of selecting key objectives to achieve its mission and then building a measurement system to track progress. As the BoT considers improvement to its performance management system(s), it should also consider mechanisms to provide external stakeholders assurance of improvements implemented. Such assurance could involve seeking assistance from subject matter experts on establishing management systems and outcome measurement tools, along with future audits to attest to full implementation. Such an approach may also address a perceived history of concern from oversight on JDLH's costs and mission, while JDLH seems to feel misunderstood. Bridging this gap is critical for long-term success.

The SIG also questions JDLH as a standalone agency operating in an independent orbit from other state agencies which could provide a synergistic benefit. Currently, JDLH's students generally come from the at-risk youth in the educational community. One of the biggest challenges the Department of Education (DOE) observed was school districts providing an alternative school setting for at-risk or discipline challenges. JDLH's mission is directly on point with this significant educational need identified by DOE. However, when a student fails or is expelled, the family is provided a document with 30 potential options, which JDLH is but one. How much better positioned would JDLH be if it was within DOE? The 2003 MAP commission made this recommendation. Even though DOE has ideas for this at-risk population, to include creating a "turnaround" school district and virtual schools, it does not provide direct management or oversight of an education facility which may complicate an oversight role. If JDLH adjusted its congregate care mission toward the foster care or juvenile justice area, a similar argument could be made for DSS or DJJ. It is a basic organizational concept of grouping like functions under common leadership promotes efficiency and effectiveness to reduce overhead, improve coordination, and promote accountability. Having JDLH as an independent operation when it could benefit from referrals, independent and objective oversight, and synergism with three potential sister agencies, could be a missed opportunity for adding efficiency and effectiveness.

As an aside, the 2003 MAP also noted, "*a review should be made of the employees who are provided houses free of charge to live in while employed at the JDLH School.*" Currently, based on the authority of a legislative proviso, approximately seven houses were provided to employees free of charge, excluding the Superintendent, and four were rented at reduced market value. In the past, employees living in campus housing likely had an after hour response requirement, but JDLH's current business model with a 24/7 residential counselor staff seems to undermine that same response requirement today. The JDLH BoT should re-examine this policy in light of the current budgetary environment.

VI. Way Forward---Organization Performance Management

The management principle, "*what gets measures, gets done,*" is irrefutable. The famous book "Reinventing Government" succinctly described the transformative impact of organizational performance management, "*what is counted shapes and influences the behavior of the organization...the simple act of defining measures is extremely enlightening to many organizations. Typically, public agencies are not entirely clear about their goals, or are in fact aiming at the wrong goals. When they have to define the outcomes they want and the appropriate benchmarks to measure those outcomes, this confusion is forced into the open. People begin to ask the right question, to redefine the problem they are trying to solve, and to diagnose that problem anew. When the measurement process starts, people immediately begin to think about the goals of the organization.*"

JDLH's FY 2012-2013 AAR revealed it did not have the management infrastructure to discern mission effectiveness. The SIG data collection to approximate a JDLH strategic plan with mission related measurable objectives could have taken a variety of formats with different approaches in gathering estimates. However, regardless of approach, the conclusion would be the same—JDLH does not have a performance management system to control student costs, which were excessive based on underutilization, and it can't articulate results in terms of outcomes. This is not meant to devalue its work. It is meant to guide JDLH to a more cost/effective manner to conduct business, as well as provide it with the data critical to maintaining oversight and taxpayer support.

The SIG is confident JDLH has the potential for a bright future. It has tradition, community support, a unique infrastructure in a beneficial setting, and, most importantly, employees who care about children. To put it on a path of sustained success, as well as resolve the lingering cost (value) issue, it should implement a performance management system.

JDLH's situation should give state government notice to examine the functionality of the statewide AAR. In 2004, South Carolina State Government had the foresight to forge ahead in the difficult and challenging endeavor of a statewide agency performance management process. The system required each agency to produce an annual AAR. The AAR provided a quality framework and guidance using criteria for organizational excellence used by the Malcolm Baldrige National Quality Award Standards. The SIG's inquiry into the AAR's functionality over the past year, which was consistent with the results of the JDLH review, paints a case the AAR has low utility. It is likely considered more of a perfunctory exercise or marketing tool than a valuable organizational performance tool providing rigorous data to be useful in the budget process to discern performance and resource allocations.

VII. Findings & Recommendations

Finding #1: The JDLH FY 2012-2013 Agency Accountability Report was not reflective of a rigorous strategic planning process, specifically lacking mission related strategic objectives, metrics for success, and results aligned to key objectives.

Recommendation #1a: The JDLH executive management should establish a formalized strategic plan to crystallize its mission, develop relevant strategic organizational objectives and corresponding metrics to measure progress, periodically monitor results, and build a reporting mechanism for this data to inform its BoT.

Recommendation #1b: The JDLH should review its internal processes for relevant metrics to assist in managing day-to-day operations contributing towards addressing the organizational key objectives, and then use feedback from outcome measures to continually improve its internal processes.

Recommendation #1c: The JDLH should consider refining its marketing approach on building processes through DOE to be alerted of potential students in need, particularly the 5300 drop outs and 1800 expelled students each year for direct follow up.

Recommendation #1d: The JDLH BoT should approve JDLH's annual strategic plan through the AAR process, as well as ensure JDLH executive staff build an accurate and relevant reporting mechanism to inform the BoT of JDLH's key strategic organizational objectives, metrics for success, and progress towards these objectives with tangible and measurable results.

Recommendation #1e: The JDLH BoT should ensure JDLH executive management responds to requirements set forth in Code of Laws of South Carolina, Section 59-18-1500 to 1600, as a result of “Below Average” or “School at Risk” rating on the SC Annual School Report Card.

Recommendation #1f: The Budget Control Board (BCB) should consider providing uniform guidance to all Commissions and Boards of Trustees, as well as consider training implications, reminding each of their fiduciary duty to ensure Agency Heads build an accurate and relevant reporting mechanism to meet Commissioners/Trustees fiduciary responsibility of monitoring operational effectiveness and ability to measure progress towards key organizational objectives and overall mission accomplishment.

Recommendation #1g: Legislative oversight should review its proviso allowing JDLH on campus houses be provided free or at a subsidized rate to employees given today’s current budgetary environment.

Recommendation #1h: The JDLH BoT should consider options to repurpose or retool aspects of JDLH if it is unable to sustain near full capacity given its current expensive treatment model, a declining congregate care industry, and prior success of transitioning from its original orphanage and needy children model.

Finding #2: Given the results of the JDLH FY 2012-2013 review coupled with previous SIG data, the statewide annual Agency Accountability Reports Program has questionable utility.

Recommendation #2: The BCB should examine its Agency Accountability Report Program for effectiveness and utility, and then consider reinvigoration to achieve a statewide performance management system for executive branch agencies relevant and linked to the statewide budget process.

Administrative Note: JDLH’s written response (five pages) can be found at link:

http://oig.sc.gov/Documents/JDLHResponseSIGRpt_010914.pdf