March 6, 2001
ILR 2001-C

President Al Mansell
Speaker Martin R Stephens
Members of the Audit Subcommittee
State Capitol Bldg
Salt Lake City UT 84114

Subject: Additional Textbook Expenditure Reporting Issues

Dear Legislators,

When reporting on our **Addendum to A Performance Audit of State Textbook Funding (Report #2001-04)**, two additional concerns were identified. First, information from two districts concerning supplemental expenditures changed from what was originally reported in the **Performance Audit of State Textbook Funding (Report 2000-07)**. Originally, supplemental expenditure information for Jordan and Box Elder School Districts showed both districts to be out of compliance with the 5.5 percent minimum expenditure requirement for fiscal year 1998 when supplemental expenditures were excluded. However, additional expenditure information submitted for the addendum showed both districts to be in compliance for fiscal year 1998. Second, four districts did not report textbook and supplies sources of funding for the addendum. As a result of these two concerns, the Audit Subcommittee requested that we determine the reasons for the inconsistent reporting from the two districts and that we gather sources of funding data from the four districts which did not report. The following reflects our work on these two issues.

Reconciliation of Two Districts' Inconsistent Reporting

Jordan district does not specifically track supplementals after the first year of receipt. Instead, supplemental money is rolled-up into a general instructional account and reported as local money. As a result, we do not know if Jordan district complied with the 5.5 percent requirement in fiscal year 1998. On the other hand, it appears that Box Elder's reporting differences resulted from an error concerning how one specific supplemental was spent. Based on further discussions with Box Elder officials, we now believe that Box Elder was in compliance with the 5.5 percent minimum expenditure requirement for fiscal year 1998.

In our November 2000 audit, we believed that Jordan and Box Elder districts did not meet the 5.5 percent minimum expenditure requirement for one year (fiscal year 1998) regardless of the methodology used for the two-year averaging procedure. The USOE allows a two-year averaging procedure when measuring compliance with the 5.5 percent minimum expenditure requirement. However, the USOE has not defined whether the average uses the previous year or the following year or whether either method is acceptable. When Jordan and Box Elder submitted their information for the addendum, the reported yearly supplemental expenditures had changed from what was originally submitted so that neither district appeared out of compliance for the year in question. We were asked to follow-up on these two districts to determine why the change had occurred and which data were accurate.

Supplemental Money Loses its Identity in Jordan after One Year. Specifically, any supplemental balances not spent after the first year of receipt are rolled-up into a textbook and supply sub-account within a general instructional account. In fiscal years 1997 and 1998, Jordan rolled-up over $1 million of supplemental money into their general instructional account. Jordan's accountant reported that the balances are rolled-up into this account to make it easier for the schools to know how much money they have available for textbooks and supplies. Because of this roll-up, supplemental money loses its identify and the district loses the ability to specifically track supplemental expenditures. In fact, for the addendum, this $1 million in supplemental money was reported as local district money by Jordan because the general instructional account is considered to have local money as its source. As a result, Jordan over-reported the local contribution and under-reported the supplemental contributions for textbook and supplies sources of funds.

This classification of supplemental money as local money caused our initial problem. Our charge was to determine if districts were in compliance with the 5.5 percent minimum expenditure requirement without using supplemental money to do so. So, even though supplemental amounts received each year were known, we needed to know how supplemental amounts were expended by year. Since this $1 million of supplemental money was reported as local money, this money was not subtracted from total expenditures used to show compliance with the 5.5 percent minimum expenditure requirement. As a result, Jordan district appeared to be in compliance for all three test years.

While the $1 million should be removed from total reported expenditures to determine compliance with the 5.5 percent minimum expenditure requirement, what amounts should be removed in what years is unknown since supplemental money loses its identity after one year. We now understand that the yearly supplemental expenditures reported by Jordan District for our November 2000 audit was based, in part, on assumptions—since the supplemental money was no longer tracked as such after one year. However, depending on what supplemental expenditure timing assumptions are made, different compliance conclusions regarding the 5.5 percent minimum expenditure requirement can be reached. As a result, we now believe that actual year-by-year compliance for Jordan District cannot be known since complete yearly supplemental expenditure data is unknown.

Box Elder Reported a Supplemental Incorrectly. When Box Elder District originally reported supplemental expenditure data to us, a $200,000 school supply and equipment supplemental was reported as being used to meet the 5.5 percent minimum expenditure requirement. However, for the addendum, this supplemental was not reported as being used to meet the 5.5 percent minimum expenditure requirement. The impact of this supplemental is important because conclusions reached concerning compliance with the 5.5 percent minimum expenditure requirement differ depending on how this supplemental was spent.

Box Elder officials confirmed to us that they erred when they initially reported that this supplemental impacted minimum expenditure accounts. Upon further analysis, it was determined that this supplemental was used to purchase equipment which is not an account used to meet minimum expenditure requirements. Consequently, the data reported for the addendum is correct. As a result, Box Elder is no longer considered a district which did not meet minimum expenditure requirements—regardless of how the two-year average is applied.

In our opinion, determining whether a district met the 5.5 percent minimum expenditure requirement should not be difficult, time consuming or subject to error or interpretation. Supplemental money should be specifically tracked and not integrated into accounts which are used to meet minimum expenditure requirements. We believe that districts should be able to report how specific supplementals are spent on a year-by-year basis. Some districts (Granite and Ogden, for example) can already do this. As a result, we believe the Legislature should require that districts specifically track supplemental monies and reiterate to the districts that supplemental monies cannot be used to meet the minimum expenditure requirement.

Information from Non-reporting Districts Gathered

In the addendum (**Report # 2001-04**), four districts–Grand, Kane, Logan, and Piute–did not provide information concerning sources of funding used for textbooks and supplies. The Audit Subcommittee requested that this information be obtained from these districts and be reported.

Grand, Logan and Piute districts have now reported their sources of funding for fiscal years 97-99. These sources of funding for all three years are shown in Figure 1. This data was provided by the school districts and was not audited by us. Kane District was unable to comply with our request. Kane District places all revenue in a general account and, as a result, the revenue sources lose their specific identity. Thus, Kane District cannot report what percent of textbook and supply expenditures came from state, federal or local funding. The new business manager of the Kane District believes that their current accounting methodology is unacceptable and is in the process of making changes so that future revenue sources and expenditures are specifically tracked.

Figure 1. Textbook and Supplies Sources of Funds per Student — FY97-99

District	Basic Funding	Supplemental Funding	Other State Funding	Local Funding	Federal Funding	Total Expenditures
Grand - FY97	$ 34.12			$103.93		$138.05
Grand - FY98	52.79			107.21		160.00
Grand - FY99	62.75			44.74		107.49
Logan - FY97	55.39	$ 38.05	$ 18.20	8.84	$14.79	135.27
Logan - FY98	63.98	8.88	15.69	14.49	7.61	110.65
Logan - FY99	53.94	25.79	15.25	8.06	8.44	111.48
Piute - FY97	127.12	38.99	114.59		5.37	286.07

Piute - FY98	87.28	19.41	164.94		11.99	283.62
Piute - FY99	116.06	27.50	106.81		4.35	254.72

Although Grand received supplemental funding for these years, these supplemental amounts were not reported separately from money received as part of the state's basic program. Again, while the total amount of supplemental funding received is known, this request is looking at actual supplemental expenditures.

Based on these reported funding sources, an analysis of compliance with the 5.5 percent minimum expenditure was made and is shown in Figure 2. We were unable to analyze Grand district since yearly supplemental expenditures were not reported separately from money received through the state's basic program.

Figure 2. Districts' Compliance with 5.5 Percent Expenditure Requirement FY 97-99 (Expressed on a per student basis)

District	Total Textbook and Supply Expenditures	Legislative Supplements	Total Expenditures Less Supplements	Required Expenditures	Required Met Without Supplements?
Logan - FY97	$135.27	$ 38.05	$97.22	$ 96.00	Yes
Logan - FY98	110.65	8.87	101.78	100.00	Yes
Logan - FY99	111.48	25.80	85.68	102.00	No
Piute - FY97	286.07	38.99	247.08	96.00	Yes
Piute - FY98	283.62	19.41	264.21	100.00	Yes
Piute - FY99	254.72	27.50	227.22	102.00	Yes

As can be seen, on a year-by-year basis, the minimum requirement was met in all years but one (Logan FY99) without using supplementals.

In summary, there were four districts which did not originally report for the addendum. Of these four, Kane cannot determine specific sources of funding for textbooks and supplies. Kane's business manager believes this is unacceptable and is working to correct the problem. Grand also reported, in a very general way, and did not break out supplemental expenditures from other state expenditures. As a result, it is not possible to determine if either Grand or Kane district complied with the 5.5 percent minimum expenditure requirement without using supplementals. Of the two remaining districts, only

Piute met the 5.5 percent minimum expenditure requirement without using supplementals for all three years.

We hope this letter provides the information you need. If you have additional questions, please call our office at (801) 538-1033.

Sincerely,

Wayne L. Welsh,
Auditor General

WLW:JTC/lm