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**A Performance Audit
of
Class-Size Reduction Funds**

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Digest of A Performance Audit of Class-size Reduction Funds

Chapter I: Introduction

Class-size reduction in Utah's public schools has been an important budget issue for the Legislature for many years. The Legislature has appropriated class-size reduction (CSR) funds as a supplement to other education funding for class-size reduction efforts. Since 1993, CSR funds have increased annually, reaching \$74 million in fiscal year 2007. However, during the 2007 Legislative Session, legislators questioned the use of CSR funding.

Chapter II: CSR Expenditures Not Always Tracked

Majority of Districts Do Not Track CSR Funds. While all districts report using CSR funds almost exclusively for teacher compensation, we could not always verify this. Twenty-two of forty school districts commingled their CSR revenues with other education revenues and have not tracked CSR funds to expenditures. Consequently, for these districts we were unable to independently validate whether CSR funds have been spent either appropriately or inappropriately.

Some CSR Fund Expenditures Can Be Determined. We sampled eight school districts, three of which track CSR funds. For these three districts, we validated that CSR funds were appropriately used to fund teachers' salaries and benefits. The rest of the sampled school districts did not segregate CSR revenues; consequently, we could not track the revenues to specific expenditures. Of the 40 school districts, 18 track CSR expenditures; for these districts, we believe CSR funds are auditable.

Changes in *Utah Code* Have Reduced Accountability Requirements. Accountability for CSR funds varies among school districts, largely because the *Utah Code* does not provide them with clear direction. Also, generally speaking, the budgetary practice has been to allow combining of revenues within the Minimum School Program (MSP).

Chapter III: CSR Program Effectiveness Needs to Be Re-evaluated

Funds Have Maintained CSR Efforts But Not Reduced Class Sizes. Analysis of aggregate data indicates that the CSR program has not achieved reductions in elementary class sizes since the last large increase in the CSR appropriation in fiscal year 2000. Though appropriations have increased annually, the added funding has not increased sufficiently to

cover increasing salary and benefit costs of those teachers funded with CSR monies. Hence, no new class-size reduction has occurred.

CSR Program Needs Policy Review. CSR funding has functioned primarily as ongoing funding for the compensation of teachers paid with these funds. For further CSR efforts, we believe the Legislature should comprehensively re-evaluate the CSR program's policies and funding practices. The following are some areas which could be addressed to improve the effectiveness of the CSR program:

- *Utah Code* requires CSR funding to be adjusted annually for enrollment growth. Over the last several years, CSR funding increases have either not been given for enrollment increases, or have been given at a lower percentage than enrollment growth for that year.
- Some school districts and charter schools do not appear to need to reduce class sizes. However, USOE automatically allocates CSR funds based on enrollment to all districts and charter schools regardless of need. In FY 2007, almost \$3 million in CSR funds were allocated to charter schools. In our view, CSR funds be allocated based on need.
- Accountability of CSR funds differs from district to district as discussed in Chapter II of the report. If the Legislature desires more uniform accountability, clarification in *Utah Code* may be needed.

Recommendations

1. We recommend that the Legislature revisit the desired outcome for the CSR program and funding and determine whether to implement changes to this program and/or its funding levels.
2. We recommend that the Legislature decide whether to annually adjust the CSR funding to reflect grades K-8 enrollment changes.
3. We recommend that the Legislature reconsider the practice of allocating CSR funding to every school district and qualified charter school based on enrollment rather than on a need basis.
4. We recommend the Legislature determine if they want reporting on CSR expenditures and the desired level of accountability by answering the following questions, which may require changes to the *Utah Code*:
 - Should districts specifically track CSR expenditures and show that the district is in compliance with the requirement to spend 50 percent of the CSR funding on grades K-2?
 - Should districts specifically account for CSR expenditures, tying the expenditure to teachers by name, grade, and salary/benefits costs?
 - Should districts produce a CSR funding report for the Legislature?

Chapter I

Introduction

Legislators recent questioning of the use of class-size reduction funds led to this audit.

Class-size reduction in Utah's public schools has been an important budget issue for the Legislature for many years. The Legislature has appropriated class-size reduction (CSR) funds as a supplement to other education funding for class-size reduction efforts. Specifically, *Utah Code* 53A-17a-124.5 states that the intent of CSR funds is to impact grades K-2 most heavily, though funds may be used through grade 8. Since 1993, CSR funds have increased annually, reaching \$74 million in fiscal year 2007. However, during the 2007 Legislative Session, legislators questioned the use of CSR funding. This audit is a result of those concerns.

We were asked to determine how CSR funds have been expended. In Chapter II, we reviewed several school districts' CSR expenditures. However, because school districts are not required to keep CSR funds separate from other revenues, only 18 of 40 districts maintain detailed expenditure data. Thus, we could only validate that expenditures were used appropriately in a sample of those districts that track CSR funds. For those districts that combine CSR revenues with other education revenues, we were unable to verify that the funds were used either appropriately or inappropriately.

Chapter III includes topics that are more policy oriented, such as issues affecting the nature and impact of CSR funds. The chapter also explains why CSR funding has not made incremental reductions in class sizes. Namely, each year's CSR appropriation is obligated for compensation costs of teachers hired with past years' CSR funds. Thus, in most years, any new funding goes to maintain the increasing compensation costs of these teachers rather than to further reduce class sizes. We conclude with a policy discussion on options for the CSR program in the future.

Due to the significant interest in and the complex nature of the subject, the following section provides a brief history of CSR funding in Utah.

History of Class-Size Reduction Funding in Utah

Appropriations for class-size reduction grew by \$70 million between FY 1993 and 2007.

State appropriations for reducing class size have been part of public education funding in the Minimum School Program (MSP) since fiscal year 1993. Since then, several major infusions of CSR funds have been approved by the Legislature, with the most recent occurring in fiscal year 2000. Figure 1.1 shows CSR appropriations from fiscal years 1993-2007.

Figure 1.1 Since Fiscal Year 1993, Annual CSR Funding Has Grown by \$70 million. A large infusion of funding came in 2000; therefore, a portion of the analysis in this report dates back to 2000.

Fiscal Year	WPU Value (A)	Total CSR WPUs (B)	Statewide CSR Funding* (A*B)	Yearly Funding Growth
1993	\$1,490	2,946	\$ 4,389,540	—
1994	1,539	7,182	11,053,098	151.8%
1995	1,608	9,609	15,451,272	39.8
1996	1,672	11,144	18,632,768	20.6
1997	1,739	25,858	44,967,062	141.3
1998	1,791	25,858	46,311,678	3.0
1999	1,854	25,804	47,840,616	3.3
2000	1,901	29,577	56,225,877	17.5
2001	2,006	29,577	59,331,462	5.5
2002	2,116	29,577	62,584,932	5.5
2003	2,132	29,757	63,441,924	1.4
2004	2,150	29,757	63,977,550	0.8
2005	2,182	30,203	65,902,946	3.0
2006	2,280	30,773	70,162,440	6.5
2007	2,417	30,773	74,378,341	6.0

Source: Office of the Legislative Fiscal Analyst and Laws of Utah 1993–1994.

* The total allocation for CSR funds can be calculated by multiplying the WPU Value by the Total CSR WPUs.

The annual appropriation of CSR funding is determined by the Legislature after considering a variety of factors. But, unlike many other education programs, the appropriation is not tied to enrollment growth. For example, the 17 percent increase of the fiscal year 2000 CSR appropriation was not determined by a 17 percent increase in Utah students. After the appropriation has been determined, the total allocation amount is divided by the current weighted pupil unit (WPU) value to arrive at the number of WPUs for the CSR program.

The reduction of class sizes can occur either by adding teachers or by adding classrooms. Nevertheless, districts report using the CSR funds on teachers' salaries and/or benefits over 99 percent of the time.

Audit Limitations

When we began gathering CSR data from the Utah State Office of Education (USOE) and school districts, we were not always able to identify specific expenditures funded by CSR revenues. Chapter II explains this in more detail.

We also found inconsistencies between USOE and school district records and had some difficulty obtaining data for the early years of the time span we reviewed. For example, there are data discrepancies in teacher compensation between the USOE and several sampled school districts, particularly for fiscal years prior to 2003. Further, the USOE data is not fully audited for accuracy. Some controls have been put in place to ensure data reliability, but USOE staff generally accept that older data is less reliable. Some school districts also needed additional time to research and provide some older data that we requested.

As will be discussed further in Chapter II, a lack of reporting requirements further increases the difficulty in tracking CSR expenditures. During the 2003 Legislative Session, the Legislature amended the class-size reduction statute in the *Utah Code*. The amendments eliminated requirements for school districts to submit CSR plans and to report how any new CSR funds were used. Some districts then eliminated separate CSR accounting because of the difficulties encountered in tracking CSR teachers. These districts' records identify expenditures but do not tie them back to a specific revenue source, increasing the difficulty of determining how CSR funds were used.

- **Some school districts' record-keeping increased the difficulty of the audit process.**

- **Data concerns also added to the audit time frame.**

One issue that is beyond the scope of the audit is a concern with classroom space, which would be needed if significant additional CSR funding is given to the districts. If additional CSR efforts are desired, further brick-and-mortar costs would need to be taken into consideration for some districts and for some schools at that time.

Audit Scope and Objectives

We were asked to conduct an audit on the uses of class-size reduction funds, including the board leeway contribution. However, due to time constraints and limitations in tracking some data, the audit focuses only on the legislatively appropriated class-size reduction monies and not board leeway funds. The audit objectives are as follows:

1. Determine how class-size reduction monies have been spent over the past three years (fiscal years 2004 to 2006). Some analysis was extended to fiscal year 2000 in order to include a review of that year's CSR infusion.
2. Determine how school districts provide accountability for the use of class-size reduction monies.

We reviewed class-size funds use for FYs 2004-2006.

Chapter II CSR Expenditures Not Always Tracked

CSR expenditure verification is often not possible because some districts do not track their expenditures.

The majority of school districts have commingled their class-size reduction (CSR) revenues with other education revenues and have not tracked CSR funds to expenditures. Consequently, for these districts we were unable to independently validate whether CSR funds have been spent either appropriately or inappropriately. However, we have validated that school districts that do track CSR funds use these funds appropriately on teachers' salaries and benefits.

Because the majority of the districts commingle funds, we conducted two other tests at an aggregated data level to assess whether CSR funds have been used inappropriately. These tests identified no inappropriate use of CSR funds.

Further, the *Utah Code* does not clearly require districts to track or report specific CSR expenditures. We believe this has created some confusion among the school districts regarding accountability and reporting of CSR funds.

Majority of Districts Do Not Track CSR Funds

We contacted all 40 of Utah's school districts and found that 22 (55 percent) do not separately track their CSR funds, but instead commingle them with other revenues. While this is a common practice among school districts, it makes these funds difficult to audit because pooled monies lose their identity, eliminating the ability to link specific revenues to specific expenditures.

Figure 2.1 shows that although 55 percent of the districts do not track CSR funding, these districts account for 63 percent of total CSR funding and kindergarten through grade 8 (K-8) enrollment.

Figure 2.1 Most School Districts Do Not Specifically Track CSR Funds. Those districts that do not track CSR funds comprise 63 percent of the K-8 enrollment and CSR funding in FY 2006.

Tracking Status	Enrollment K-8	Percent of K-8 Enrollment	CSR Revenues	Percent of CSR Revenues
18 (45%) Track CSR Funds	128,210	37%	\$25,528,311	37%
22 (55%) Do Not Track CSR	214,242	63	42,931,218	63

Once combined with other funds, CSR revenue's impact is difficult to isolate and measure.

Figure 2.1 shows that 18 school districts track CSR funds and 22 do not. Of the total statewide CSR revenues, only 37 percent were traceable to a specific expenditure. As discussed in a later section of this chapter, the districts that commingle funds still report using those funds on teacher compensation; however, we could not verify those expenditures.

CSR funding is just one of multiple revenues in the Minimum School Program (MSP) budget, which funds instructional costs and particularly teacher compensation. Thus, it is difficult to isolate the effects of the various funding streams. Nevertheless, the next section of the chapter discusses our audit findings on CSR expenditures.

Some CSR Fund Expenditures Can Be Determined

According to school district records, business administrators, and USOE staff, CSR funds were expended primarily for teacher salaries and benefits. We validated CSR expenditures for three of eight sampled school districts for fiscal years 2002-2007. The rest of the sampled school districts did not segregate CSR revenues; consequently, we could not trace the revenues to specific expenditures.

Three of eight sampled school districts tracked CSR funds to expenditures.

Utah Code 53A-17a-124.5 directs that CSR funds be used on activities that reduce class sizes, allowing the use of nontraditional, innovative, and creative methods to do so. Although there is flexibility in the statute for using CSR monies, districts have reported using CSR funds

primarily to hire more teachers. Thus, salaries and benefits are the expected types of expenditures of CSR funds.

Districts tracking their CSR funds provided expenditure reports documenting that CSR expenditures were used for teachers' compensation. For districts pooling revenues into the general fund, expenditures could not be traced back to a given revenue source. CSR program expenditures as reported in the school districts' Annual Program Reports (APR) indicated that, with minor exceptions, the districts allocated CSR revenues to teachers' salaries and benefits.

School Districts That Track Specific Costs Used CSR Funds for Teachers

We verified that three of the eight sampled school districts tracked their CSR expenditures separately and used these funds appropriately on teachers' salaries and benefits. Because these districts put CSR revenue into a separate program account, we were able to review the details of how those funds were used. With this background in mind, we will discuss the three sampled school districts that track CSR funding to specific teachers' compensation expenditures.

Three districts' records showed that CSR funds were used for CSR teacher salaries and benefits.

Detailed program expenditure records indicated that Granite, Tooele, and Carbon School Districts spent their CSR allocations for teachers. These districts provided lists of specific teachers who were paid from CSR funds as well as summary program expenditures for their CSR funding. Two districts provided individual salary and benefit information and the third provided total salaries and benefits for each year reviewed.

Figure 2.2 below details these school districts' recent CSR allocations and expenditures. Granite, Tooele, and Carbon all spent more for CSR teachers than their total CSR allocations. For all three, program records indicate that additional funding from local revenue and other state funds was applied to benefit costs for these CSR teachers. Consequently, we conclude that 100 percent of CSR funds were used for class-size reduction efforts.

Figure 2.2 Granite, Tooele, and Carbon School Districts Used More Than Their CSR Allocations for Teachers. In each of the three districts, supplemental funding was used to cover the additional costs for teachers paid with CSR funds.

Fiscal Year	CSR Allocation	CSR Teacher Compensation	Supplemental Funds Used
Granite SD			
2004	\$ 9,028,677	\$ 9,453,806	\$ 425,129
2005	9,088,540	9,282,991	194,451
2006	9,321,935	10,028,310	706,375
Totals:	\$27,439,152	\$28,765,107	\$1,335,955
Tooele SD			
2004	\$1,471,378	\$1,822,867	\$351,489
2005	1,564,499	1,821,879	257,380
2006	1,719,797	2,006,696	286,899
Totals:	\$4,755,674	\$5,651,442	\$895,768
Carbon SD			
2004	\$ 452,019	\$ 452,019	---
2005	436,449	522,805	\$ 86,356.00
2006	437,010	594,248	157,238
Totals:	\$1,325,478	\$1,569,072	\$243,594

Granite, Tooele, and Carbon spent local funds and other state funds in addition to CSR funding.

These three school districts had more in common than the fact that they were tracking CSR revenues to expenditures for specific teachers. Other similarities include the following:

- CSR funding did not necessarily maintain a consistent source of funds that stayed current with cost of living and teacher step increases. Thus, to cover some of these additional costs, these districts used supplemental funding from local or state revenues to cover all compensation costs for CSR teachers. The districts

differed in whether their need to use supplemental funding was increasing or decreasing.

- Fluctuations in CSR funding affected both the number of CSR teachers a district could support and the amount of additional funds needed to maintain prior years' CSR efforts. This issue will be further discussed in Chapter III.
- Though not detailed in Figure 2.2, as we reviewed these districts' funding of CSR teachers over time, we observed that the changes in the districts' assigned CSR teachers resulted in some senior, higher-paid teachers being replaced by lower-paid teachers. While this practice may have funded more teachers, the movement of teachers on and off CSR funding complicated the record-keeping and our funding analyses.

To summarize, the three school districts that tracked their CSR allocations to expenditures used their CSR funding to support elementary school teachers. They all supplemented their CSR allocations with additional funds from elsewhere in their budgets, because the CSR funds have not kept pace with inflation and other compensation increases.

We Cannot Validate CSR Expenditures for Majority of Districts That Pool Revenues

The five sampled school districts that combined their CSR funding with other revenue sources reported using their CSR allocations for teacher salaries and benefits. However, we could not validate these districts' reports. Since these districts did not have records that tied specific expenditures to the CSR revenues, we reviewed other district records to assess how they used their CSR funding; these reviews are discussed immediately below and in the following section of the chapter.

Even though school districts that pool revenues could not document specific expenditures from the CSR revenues, all districts record and report their CSR program expenditures in an APR. These reports provided expenditures by category for each school districts' CSR allocation. We reviewed the CSR program APRs for all 40 school districts, but conducted a more thorough review for each of the five sampled districts that did not track funds. Although the reports are not

When funds were combined, we could not track expenditures back to the CSR revenue source.

The main use of the combined funds was for teachers' salaries and benefits.

audited and we could not validate the data, the five districts reported their CSR funds were used exclusively for teacher salaries and benefits.

Because of the limitations of the APR, we also conducted a broader review of expenditures from districts' General Fund accounts into which CSR revenues flow. At a statewide level, about 85-90 percent of those pooled revenues were spent on salaries and benefits, increasing the likelihood that the CSR funds within that pool were also spent on compensation. Nevertheless, it is our view that the *Utah Code* lacks guidance regarding accountability for CSR funding, as we explain later in the chapter.

Staff from three of our five sampled school districts provided us with planning or budget worksheets demonstrating that they calculate the number of teachers that can be funded with their CSR funds. Alpine School District staff provided us with reports dating back to fiscal year 2000 that kept track of the number of additional teachers made possible by CSR funding. Logan School District staff developed a worksheet to determine where and how many CSR teachers could be assigned based on the next year's enrollment projections. Washington County School District's worksheet included the planned use of their CSR allocation and how many teachers the funds would support. These internal working documents, though not auditable, indicated an intention to use CSR funds as required for class-size reduction activities.

Nevertheless, the budget worksheets did not allow us to link CSR revenues to specific expenditures. Even if the funds were used for teacher compensation, we could not determine if funding went to increase existing teacher compensation versus hiring more teachers with those funds. Therefore, additional audit work was needed.

Other Work Found No Major Concerns with CSR Spending

Because of commingling of funds, we conducted other tests to determine if CSR funds were used appropriately. One test focused on whether districts gave unusually large pay or benefit increases to existing teachers, which would have raised concerns about appropriate use of CSR funds. Review of a limited sample of elementary teachers in eight school districts found reasonable explanations for pay increases. However, we

could not determine whether any funds were used for compensation increases for existing teachers rather than for hiring new teachers. We did determine that teachers received lower or no base salary increases during fiscal years 2003-2005.

In addition to reviewing teacher compensation, we reviewed all 40 school districts' APRs from 2002-2006 for other expenditures. The districts reported less than one percent of total CSR program expenditures as something other than teacher compensation. We contacted these districts for further information and did not find any major concerns.

Compensation Increases Appear Reasonable During Audited Time Span

We reviewed the compensation increases for a sample of three elementary school teachers per district in the eight sampled school districts, for a total of 24 teachers, over fiscal years 2002-2007. School district staff were asked to research and provide the reasons for each annual increase. We then compared this data with district records and USOE data. The explanations for pay increases were generally reasonable and followed district compensation policies.

Regardless of the school district, sampled teachers' pay increases followed a similar pattern. There were three main reasons for pay increases, as described below:

- District-wide salary schedule adjustments, or cost of living adjustments to the base salary schedule, are set during teacher contract negotiations. Observed salary adjustments ranged from zero to five percent
- The school districts typically gave step increases for each year of service, as long as the teacher had not reached the maximum number of steps within the respective salary lane. These increases were generally two to four percent. There were no multiple steps given in any single year.
- Less frequently, a lane change (a lateral change to the next set of salary steps), often with a pay increase, occurred when a teacher completed continuing education requirements, such as additional college credits or an advanced degree.

Teachers' pay increases included cost of living adjustments to the base salary schedule, step increases, and lane changes.

Figure 2.3 shows a typical pay history to illustrate the overall pattern of increases that we saw in the three districts.

We observed that during fiscal years 2003-2005, base salary adjustments (negotiated increases) were generally not given. However, teachers usually received a step increase for each year of experience, depending on district policy, even during tight budget times.

Figure 2.3 gives an example of the compensation increases for one of the sampled teachers for fiscal years 2002-2007. The figure shows one teacher’s compensation history to illustrate the pattern of increases we saw across the sampled districts.

Figure 2.3 One Teacher’s Compensation History from 2002-2007 Illustrates the Pattern of Increases in Our Sample. Note that salary schedule adjustments were not made in fiscal years 2003 and 2004, and a smaller increase was given in 2005. This teacher received a step increase per year until the lane change, which put the teacher at the top step of the next salary range.

Fiscal Year	Salary Schedule Adjustments	Step Increase*	Lane Changes
2001-02	4.00%	3.50%	-
2002-03	0.00	3.40	-
2003-04	0.00	3.30	-
2004-05	1.25	3.20	1.10%
2005-06	3.00	-	-
2006-07	5.00	-	-

* Step increases are generally given for years of service, but are limited within each lane.

In summary, reviewed districts followed the same method of compensating teachers. We found no instances of multiple step increases within a lane. Within districts, the teachers we reviewed showed similar pay increases, with the exception of lane changes. Because this small initial sample found no major concerns, further work was not done in this area. At a higher level, we also compared statewide compensation data for state employees and teachers, which we discuss in detail in Chapter III.

CSR expenditure reports had less than 1% spent on non-compensation uses.

APRs Included Some Miscellaneous Expenditures But They Were Related to CSR Efforts

Our review of all 40 school districts' APRs raised some questions about a few expenditures, which totaled less than one percent of CSR funds. We contacted the relevant school districts (none of which were part of our sample of eight) to determine the nature of the expenses. School district administrators provided additional information that indicated the expenditures were, in most cases, related to the district's CSR efforts. Figure 2.4 shows a sample of these expenditures with further explanation in the bullet points following the figure.

Figure 2.4 Sampled Miscellaneous Expenditures Appear to Be Related to CSR Efforts. District staff provided details on the questioned expenditures, which were within allowed usage for CSR funding.

District	Amount	Year(s) of Expense	District Explanation
Box Elder	\$100,000	2002	Portable classrooms as part of classroom expansion
Logan	129,610	2005 & 2006	Indirect cost allocation (allowed in USOE administrative rule)

- Box Elder School District spent \$100,000 of CSR funds for portable classrooms, which was less than 10 percent of its CSR funding. According to statute, up to 20 percent of CSR funds may be spent on relevant capital improvements.
- Logan School District reported a portion of CSR funds being allocated to indirect CSR expenses. There is an allowance in rule to do so. A district may allocate a small percentage of any program's funds to indirect costs (costs not attributable to specific program cost categories) as provided in the Utah State Board of Education's *Administrative Rule R277-424*.

Also, we reviewed several other districts' expenditures that had been classified as something other than salary and benefit expenditures on the APR report. Upon further review, these expenditures were indeed compensation expenditures and were appropriate uses of CSR funds. One of the districts reported a carry-forward of \$51,287 from 2006 to 2007.

The carry-forward was unused supplemental funding. This district uses supplemental funding for CSR teachers. We verified that the carry-forward funds were expended in 2007 and used for CSR teacher compensation.

Overall, these districts provided justification for their expenditures. That said, the next section deals with the lack of clarity in the statute for districts' CSR requirements.

Changes in *Utah Code* Have Reduced Accountability Requirements

Accountability for CSR funds varies among school districts, largely because the *Utah Code* does not provide them with clear direction. Further, the statutory CSR reporting requirements have changed often, with the latest major change removing some specific accountability language. Generally speaking, the budgetary practice has been to allow combining of revenues within the MSP.

***Utah Code* No Longer Requires Districts to Track CSR Expenditures**

As previously noted, our review of how CSR funding has been used was somewhat constrained by limitations in the data, as most school districts have not tracked CSR revenues to specific expenditures. In fact, Utah school districts are no longer required to report how they use CSR revenues. Hence, most school districts have pooled multiple revenues to simplify accounting.

During the 2003 General Session, the Legislature amended *Utah Code* 53A-17a-124.5 and changed CSR reporting requirements. The amendments eliminated requirements to school districts to submit CSR plans and report on how new CSR funds were used. Reportedly, the requirements were eliminated to reduce and streamline reporting for school districts as well as to limit the number of reports sent to the Education Interim Committee. We believe that the streamlining of reports may have inadvertently lessened CSR accountability.

Requirements eliminated in the 2003 General Session from *Utah Code* 53A-17a-124.5 include the following as paraphrased:

School districts are not required to keep track of how CSR funding is used.

- (8)(a) Each school district shall provide an annual summary report on the overall district plan for utilizing CSR funds.
- (8)(b) If the district received new additional CSR funds, the district shall report how the use of the funds complies with legislative intent and how these funds supplement the district's CSR plan.

Remaining CSR provisions in the *Utah Code* do not specifically require reporting on funding usage. In our opinion, as the statute currently does not contain CSR reporting requirements, the practice of commingling funds will likely continue. In Chapter III, we will present some CSR reporting policy options for the Legislature to consider.

MSP Budget Structure Allows Combining Program Funds

Legislative staff in the Office of the Legislative Fiscal Analyst (LFA) and the Office of Legislative Research and General Counsel (LRGC) told us that Budgetary Procedures Act (BPA) restrictions on transfers of budgeted funds between programs do not apply to the MSP. In fact, it has been accepted practice for revenues appropriated to different MSP programs (for example, kindergarten, grades 1-12, or CSR) to be combined or commingled in the districts' general funds.

Furthermore, LRGC staff indicated that education budget line items in the School Finance Act are treated differently from line items in the BPA. Each education line item—including CSR funds—is governed by its respective statutory language more than by the provisions of the BPA. As previously noted, statutory language currently does not require the specific tracking of CSR revenues to expenditures. Taken together, these current conditions in education budgeting do not promote CSR program accountability.

**Combining revenues
in a given district's
general fund is
accepted practice in
education.**

The allowable commingling of revenues kept us from determining the impact of the last large CSR funding increase.

Data Concerns Prevented Measure of FY 2000 CSR Infusion

As part of the audit, we attempted to determine the effect of the large infusion of CSR funding appropriated in fiscal year 2000. However, concerns with the availability and accuracy of relevant data prevented us from making this determination.

Access to needed data was restricted because so many school districts pooled their revenues and did not have detailed expenditure records. As an alternative evaluation, we examined USOE data to try to identify whether the actual number of teachers increased soon after the funding infusion. But we could not verify the accuracy of USOE's teacher data as far back as 1999-2001. Moreover, the USOE database did not include teaching aides who were hired to help with CSR efforts.

To conclude, current reporting requirements and accountability levels prevented the completion of this particular audit test as well as several other CSR-related funding issues already discussed. In fact, should the Legislature decide to appropriate another major increase in CSR funding, the current reporting requirements would not be sufficient to allow the use of those funds to be ascertained.

In Chapter III, we discuss aggregate analyses that provide statewide information about the use of CSR funding. The chapter concludes with a policy-related section that revisits some issues raised in this chapter and looks at some additional ones as well.

Chapter III

CSR Program Effectiveness Needs to Be Re-evaluated

This chapter presents an analysis of aggregate data indicating that the class-size reduction (CSR) program has not achieved reductions in elementary class sizes since the last large increase in the CSR appropriation in fiscal year 2000. Though appropriations have increased annually, the added funding has not reduced class sizes. In light of this conclusion, we believe the Legislature should re-evaluate the CSR program's policies and funding practices. This chapter also summarizes policy issues raised which we believe need to be addressed by the Legislature.

Funds Have Maintained CSR Efforts But Not Reduced Class Sizes

Several factors have prevented the CSR program from achieving reductions in class sizes. The CSR funds over the past few years have maintained teachers who had been previously hired for CSR efforts, but no new significant class-size reduction efforts have been possible since 2000.

We also looked at average teachers' compensation increases to see if overly generous pay increases could have adversely affected the funding's ability to support CSR teachers from 2000-2006. We found that teacher compensation increases have not been excessive and were comparable to state employee compensation increases. This information provides an indication that teacher compensation practices have been reasonable.

Since Fiscal Year 2000, the Number of CSR Teachers Has Not Increased

Based on aggregate data analysis from fiscal years 2000-2006, we estimate that CSR appropriations enabled an increase in CSR teachers in only two of the six years. However, we estimate that the fiscal year 2006 CSR funding was sufficient to bring the number of supported teachers back to the level seen in 2000. Essentially, for the last six years CSR funds

functioned as maintenance funding rather than providing for new class-size reduction efforts.

The methodology used for the analysis relied on average compensation data and statewide funding because of limitations on CSR teacher data in most districts as a result of commingled revenues. We used annual average teacher compensation to estimate the number of teachers that could be supported by each year’s CSR funding.

Our analysis demonstrated that, at a statewide level, CSR funding maintained but did not increase the number of funded teachers during this time period. The data also showed that the total estimated teachers decreased in four of the six years. Figure 3.1 depicts the results of the analysis, showing each year’s change in the estimated number of teachers that could have been supported.

At a statewide level, estimated CSR teachers did not increase from FY 2000-2006.

Figure 3.1 CSR Funds Were Sufficient to Support about the Same Number of Teachers in Fiscal Year 2006 as in 2000. Each years’ total CSR appropriation was divided by average total compensation to provide annual estimates of the number of teachers the funds could have supported.

Fiscal Year	Statewide CSR Funds	Avg Total Salaries & Benefits	Estimated CSR Teachers Supported*	Increase or Decrease
2000	\$ 56,225,877	\$ 47,868	1,175	-
2001	59,331,462	50,710	1,170	Decrease
2002	62,584,932	52,117	1,201	Increase
2003	63,441,924	53,891	1,177	Decrease
2004	63,977,550	55,649	1,150	Decrease
2005	65,902,946	57,826	1,140	Decrease
2006	70,162,440	59,630	1,177	Increase
FY 2000-2006 Change:	24.8%	24.6%	+2	

* The column depicting the estimated number of teachers supported is not the actual number of teachers supported. In most cases, we could not determine actual totals due to insufficient district data. This figure demonstrates—based on estimates—how CSR acted as maintenance funding for prior-year teacher compensation.

**Districts that track
CSR funds varied in
their ability to
maintain teachers.**

Both the appropriation and average teacher compensation increased 25 percent overall from 2000 to 2006, enabling the CSR funds to support roughly the same number of CSR-funded teachers at the end of the time span as they did in 2000. However, in fiscal years 2003-2005, there were only slight increases in overall CSR funding due to tight budget times. In these years, the CSR funding lost ability to support the same number of CSR-funded teachers because the increase in teacher compensation costs exceeded the increases in the fund's revenues. For example, according to a national health research foundation, health insurance premiums alone increased about 11-14 percent annually from 2001-2004.

We also reviewed the teachers funded over the time span in the three sampled school districts that tracked their CSR teachers. The data supports the overall conclusion found in Figure 3.1 in both Granite and Carbon School Districts. However, Tooele School District differs because their enrollment growth and increase in CSR funding allowed for more teachers to be supported. The actual data on their CSR teachers showed the following:

- Granite School District, even with a recent slight increase in enrollment, lost ability to maintain CSR-funded teachers, dropping from 195 CSR teachers in fiscal year 2000 to 183 CSR teachers by fiscal year 2006. In fiscal years 2003 and 2004 Granite's enrollment decreased, which decreased CSR funding and reduced their ability to maintain teachers.
- Carbon School District, also with a recent increase in enrollment, lost teachers in the tight budget years. Then, in 2006, funding increased enough to fund the same number of CSR teachers (11) as supported in 2000. Carbon had decreasing enrollment (and CSR funding) in fiscal years 2002-2005.
- Tooele School District, a rapidly growing district, saw the number of CSR teachers increase from 34 to 51 teachers over the six years. They received about an 8 percent increase annually in their CSR allocations because of their large increases in enrollment.

Tooele's larger annual increases in CSR funding allowed for the district to maintain its CSR teachers over the last six years, as well as fund additional teachers. Further, we note that all three school districts used

supplemental funding (as discussed in Chapter II) to help fully fund their CSR teachers.

Compensation Increases for Teachers Appear to Have Been Reasonable

We reviewed the increase in teacher compensation costs in an attempt to determine whether compensation increases appeared reasonable or not. Excessively large pay increases between fiscal years 2000-2006 would have raised the possibility of CSR funds being used for compensation increases rather than for CSR efforts.

To determine reasonableness of these increases, we compared average teacher compensation increases with those given to State of Utah employees. State employee data from the Department of Human Resource Management were used as the criteria against which we measured teachers' compensation. For teacher data, we used aggregate statewide teacher compensation data because each district sets its own salary schedule.

We performed this comparative analysis to provide a general picture of education compensation practices. During fiscal years 2000-2006, the rates of compensation increases between education and state employees were similar, though individual years showed some differences. Figure 3.2 below provides the results of the comparison.

Figure 3.2 Annual Increases in Average State Employee Compensation and Average Teacher Compensation Were Comparable for Fiscal Years 2000-2006. This analysis should be viewed as a high-level comparison that provided an indication of reasonableness but was not a comprehensive review.

Type of Expense	FY 2000-2006 Avg. Annual % Increase to State Employees	FY 2000-2006 Avg. Annual % Increase to Teachers
Salary	3.1%	2.9%
Benefits	4.5	5.7
Total Compensation*	3.5	3.7

* Salaries comprise a greater proportion of total compensation than do benefits. Therefore, we provided a total compensation comparison for both state employees and for teachers.

Pay increases for teachers and state employees were fairly comparable from FY00-06.

This analysis provided a broad statewide indicator of reasonableness and found teacher compensation to be reasonable as compared to the compensation of state employees. Had the data shown significant disparity between teachers' and public employees' pay increases, it would have been concerning and likely would have resulted in further audit work. Since average pay increases did not seem excessive, we turn instead to discussion of policy issues that appear to have contributed to the inability of the CSR program to be effective.

CSR Program Needs Policy Review

This chapter has raised a number of policy issues related to the state's CSR program. As we have attempted to demonstrate, with the current funding structure, the CSR program has not been able to accomplish incremental reductions in class sizes. With the exceptions of limited funding or large increases in the CSR appropriation, from year to year, CSR funding has functioned primarily as ongoing funding for the compensation of teachers paid with the funds. The following material discusses issues raised in Chapters II and III and presents recommendations to the Legislature regarding the need for a comprehensive CSR policy re-evaluation of the funding.

Legislature Should Review Program Intent

In light of the present maintenance-level performance of CSR funding, we believe that the Legislature should re-examine its intent and goals for the CSR program. If the current maintenance-of-effort program (more or less sustaining the number of teachers hired years ago) is considered to be a reasonable outcome for the funding, then the program could continue relatively unchanged. However, even at maintenance level, we identified funding deficiencies that would need to be addressed.

The following scenario provides an illustration of a funding option that would provide for maintaining the level of reductions achieved to date.

Scenario 1: If the Legislature were to appropriate \$10 million for CSR purposes in a given year, then the following year, maintenance of effort alone would require funding at the initial \$10 million level plus

CSR program intent and goals should be re-evaluated.

funding sufficient to meet inflationary cost increases as well as costs of any enrollment increases.

On the other hand, if the goal is to enable further reductions in elementary class sizes, consideration should be given to ensuring that the program is enabled to achieve that goal from year to year. To enable continuing reductions, the Legislature would need to re-evaluate and modify current CSR funding policy, as illustrated in Scenario 2.

Scenario 2: Additional CSR efforts would require significantly more funding. For example, in addition to the increases described in Scenario 1 for maintenance, perhaps the Legislature would appropriate an additional \$10 million for the second year's CSR efforts. In this case, after two years, the Legislature would have invested more than \$20 million in ongoing funding for CSR efforts. This funding pattern would need to continue as teachers were hired with new funds. This scenario represents a significant funding commitment in future years to enable successful efforts to reduce class sizes.

The CSR program would require more funding to further impact class sizes.

Legislature Should Review Funding Adjustment for Enrollment

The CSR program's funding has not been adjusted annually for enrollment growth, although the *Utah Code* requires such a change. Adjustments for enrollment growth are necessary to enable districts to maintain ongoing CSR efforts. As shown previously in Figure 3.1, CSR funds have maintained about the same number of teachers from fiscal years 2000-2006. However, CSR funding has not increased in proportion to enrollment increases. Consequently, there are more students in the schools, but the same number of teachers are funded with CSR dollars. Thus, continued CSR efforts are not realized.

Required funding adjustment for enrollment growth has not always occurred.

The relevant CSR appropriation provision in the *Utah Code* states the following:

The Legislature shall provide for an annual adjustment in the appropriation authorized under this section in proportion to the increase in the number of students in the state in kindergarten through grade eight. (*Utah Code* (53A-17a-124.5(7)))

Annual funding adjustments for enrollment growth are mandated in the *Utah Code*.

This mandate to the Legislature has been in the *Utah Code* since 1994. Figure 3.3 depicts the actual percentage increase in statewide enrollment for grades 8 (K-8) compared to changes in the number of weighted pupil units (WPU) associated with CSR for fiscal years 2000-2007. Recall that as shown in Chapter I, Figure 1.1, the CSR funding allocation is the product of the WPU value and the number of WPUs. If CSR funding had been adjusted according to enrollment increases, then the percentage increases in enrollment and in CSR WPUs from year to year would be about the same. But this is not the case.

Figure 3.3 Class-Size Reduction Funding Has Not Been Adjusted in Proportion to Enrollment Increases. CSR WPUs increased in four of the last eight years, but the increases have not kept pace with enrollment growth starting in fiscal year 2001.

Fiscal Year	K-8 Enrollment	Percent Change	CSR WPUs	Percent Change	Funded for Enrollment
2001	320,634	0.6%	29,577	0.0%	Not Funded
2002	324,633	1.2	29,577	0.0	Not Funded
2003	328,013	1.0	29,757	0.6	Underfunded
2004	333,145	1.6	29,757	0.0	Not Funded
2005	339,707	2.0	30,203	1.5	Underfunded
2006	350,969	3.3	30,773	1.9	Underfunded
2007	372,321	6.1	30,773	0.0	Not Funded

Note: For historical information on CSR WPUs, refer to Figure 1.1 in Chapter I.

The USOE requested increases based on projected enrollment growth for at least the last four years, but the projections were less than actual growth. Regardless of the level of growth, the requests were not approved. Since 2001, the CSR appropriation of WPUs did not increase as much as K-8 enrollment growth. This data indicates that enrollment adjustments have not been made as directed over the years, so increases in the CSR appropriation have not kept pace with funding needs due to increasing enrollment. In fiscal years 2003, 2005, and 2006, increases for enrollment growth were given but fell short of the needed increase. No funding adjustments were made for enrollment growth in fiscal years 2001, 2002, 2004, or 2007.

We recommend that the Legislature determine whether to fund the CSR program for enrollment growth as called for in statute. Depending on the Legislature's determination, a change in the statute may be needed to reflect the preferred course of action.

Legislature Should Review Automatic Allocations to Charter Schools

Another issue with potential to reduce the effectiveness of CSR funding is automatic allocation of CSR funding to schools that do not need to reduce class sizes. Presently, all charter schools and every school district, regardless of size, receive CSR funding. We believe providing CSR funds to schools without class-size concerns is a policy that should be reviewed.

Charter schools have de facto enrollment limits since they are funded up to an enrollment size specified in their charter documents. Some charter schools already have class sizes lower than the state average. In fiscal year 2006, 21 charter schools enrolled elementary students. Of these schools, 13 (62 percent) had pupil-teacher ratios lower than the average elementary school pupil-teacher ratio for district elementary schools. The average charter school pupil-teacher ratio (K-6) was 23.8 to 1 and the ratio for school districts was 25.2 to 1 (K-6).

Of the 21 charter schools with K-6 enrollment, three had pupil-teacher ratios of less than 18 to 1. This ratio is significant because the *Utah Code* sets an 18-to-1 pupil-teacher ratio as the class size above which CSR funds must be used for class-size reduction purposes in K-2; a lower ratio allows for the option of using the funding for CSR purposes in other grades. In other words, classes of 18 or fewer are not seen as needing reduction funding.

Another reason to reconsider this automatic allocation procedure is that charter schools' enrollment has increased rapidly and their CSR allocations have followed suit. The amount of CSR funding allocated to charter schools nearly doubled each year from fiscal year 2004 through 2007. Figure 3.4 demonstrates the growth in CSR funding to charter schools.

CSR funding has been allocated to schools whose need to reduce class sizes is unproven.

Figure 3.4 Charter Schools' CSR Funding Is Increasing. As more Utah students have enrolled in charter schools, CSR funding to charter schools has increased, thereby decreasing the proportion of the total funding available to growing school districts with larger class sizes.

Charter Schools	FY 2004	FY 2005	FY 2006	FY 2007
K-8 Enrollment	2,400	4,200	8,500	15,000
CSR Funds	\$462,400	\$820,300	\$1.69 m.	\$2.99 m.

Note: Enrollment numbers and CSR funding amounts have been rounded. USOE projects FY 2008 CSR funding to charter schools to be \$3.87 million, a 30 percent increase from FY 2007.

Without adjustment for enrollment growth, allocations to charter schools reduce the pool of funding available to district schools.

If CSR funds had been adjusted for enrollment growth, the total CSR appropriation would have also increased, allowing proportionate allocations to have been made. However, as shown earlier in Figure 3.3, the CSR appropriation was either underfunded or not funded for enrollment growth during these years. Thus, increased allocations to charter schools have meant that a smaller portion of the total CSR funding remained for distribution to the school districts. The effect is diminished potential for significant CSR efforts in districts where large classes demonstrate their need.

USOE staff have explained that charter schools receive CSR funding based on specific language in the *Utah Code*. The guiding statute (*Utah Code* 53A-1a-513(2)(a)) provides that charter schools shall receive state funds, as applicable, on the same basis as a school district receives funds. Because of this statutory language, the USOE has allocated CSR funds to all charter schools as well as to all school districts. However, we question whether it is “applicable” to provide funding for a specific purpose to schools that have little to no need for that targeted funding.

While we are not advocating a net loss of funding to charter schools or necessarily existent small school districts, we believe the Legislature should consider the option of allocating CSR revenues where they are most needed, rather than continuing the current practice of automatic allocation to every school district and charter school regardless of class size. Allocating CSR funds based on need to reduce class sizes would require the development of policy and procedure to guide staff in implementation of such a policy.

Legislature Should Review Program Accountability

If the Legislature were to decide that the CSR program should be funded at a level that enables incremental reductions in class size, another policy issue would need to be addressed—accountability. As we indicated in Chapter II, current reporting requirements were insufficient to allow us to verify how CSR funds have been spent in the majority of sampled school districts. The Legislature could re-examine the level of accountability for CSR funding then take steps to ensure that program reporting requirements are sufficient to provide the level of accountability deemed necessary.

Fiscal accountability would require the recipients of CSR funds to account for the CSR program’s revenues and expenditures with enough detail to show how CSR funds were used. The three school districts in our sample who already track CSR funding have used separate accounts to isolate program transactions. Achieving fiscal accountability would require periodic reporting on program activity. Such reporting should be provided to the Legislature when given to other oversight entities, such as local school boards or the USOE.

The Statute Requiring 50 Percent of CSR Funds to Be Spent on K-2 Grades Needs Review. Depending on decisions made about accountability for CSR revenues and expenditures, reconsideration could be given to a spending restriction that appears in *Utah Code* 53A-17a-124.5(b)(i). This language requires recipients of CSR funds to use 50 percent of their allocations to reduce class size in grades K-2. Our concern is with the inability of many districts to document whether they have met the 50 percent requirement because they commingle revenues.

If reporting requirements were not changed, the Legislature could consider reducing the rule to a guideline that would keep the emphasis on K-2 without mandating a spending pattern. Another option would be re-evaluating whether this *Utah Code* provision is needed in light of many districts’ inability to verify compliance.

USOE Should Take Initiative for CSR Program Oversight. We believe the USOE should seek legislative input on issues raised in our report then begin to address the issues with input from school districts and charter schools. Depending on Legislative action regarding reporting

Districts vary in their ability to track and report on 50% of funds going to K-2.

Depending on legislative action, the USOE should provide policy direction to districts and charter schools.

requirements, the USOE should consider re-evaluating the following areas to provide direction to school districts on CSR program reporting:

- Summary of proposed or implemented changes in policy, reporting, or accountability measures
- Proposed budget for ongoing CSR efforts with explanation
- Charter school involvement or any other special areas of note

In summary, we recommend these policy reviews to the Legislature and the USOE as steps that should begin to address the concerns raised in this report and enable this important program to function more effectively.

Recommendations

1. We recommend that the Legislature revisit the desired outcome for the class-size reduction program and funding and determine whether to implement changes to this program and/or its funding levels.
2. We recommend that the Legislature decide whether to annually adjust the class-size reduction funding to reflect kindergarten through eighth grade enrollment changes (see *Utah Code* 53A-17a-124.5(7)); alternatively, the language could be removed from the statute.
3. We recommend that the Legislature reconsider the practice of allocating CSR funding to every school district and qualified charter school based on enrollment and direct the Utah State Office of Education to set policy allocating CSR funding on a need basis rather than solely on enrollment.

4. We recommend the Legislature determine if they want reporting on CSR expenditures and the desired level of accountability by answering the following questions which may require changes to the *Utah Code*:
 - Should districts specifically track CSR expenditures and show that the district is in compliance with the requirement to spend 50 percent of the CSR funding on grades K-2?
 - Should districts specifically account for CSR expenditures, tying the expenditure to teachers by name, grade, and salary and benefits costs?
 - Should districts produce a report for the Legislature on the reported uses of CSR funding?

Agency Response

UTAH STATE OFFICE OF EDUCATION

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November 30, 2007

John M. Schaff
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

Thank you for the opportunity to review and respond to *A Performance Audit of Class-Size Reduction Funds*. The Utah State Office of Education is pleased with the auditor's finding that class-size reduction (CSR) funds have been used appropriately and that 100 percent of CSR funds were used for class-size reduction efforts. Indeed, in some districts the auditors found that other funds were used to supplement CSR funding, especially in tight budget years.

For some years, state education leaders have worried that requests for enrollment-enhanced CSR funding have not received attention. As the audit has indicated, this has made the funds function as maintenance funding rather than providing for new class-size reduction efforts as was originally desired by the Utah Legislature. As a result, CSR funding lost ability to support the same number of CSR-funded teachers because of increased teacher compensation costs that exceeded the increases in the fund's revenues. We hope that this audit will redirect attention to this matter and that renewed, enrollment-enhanced CSR funding will occur, as was the original intent of the Utah Legislature some years ago.

We concur with the auditor's findings, however, we would want to carefully study the effects of discontinuing automatic allocation of CSR funding to every school district and charter school regardless of class size. We seek legislative input on such issues as well as on accountability expectations. The Utah State Office of Education is, of course, willing to provide oversight to this area as expectations are set.

Utah has one of the largest average class sizes in the nation. The national average is 15.8 students per teacher while Utah is at 22.6 students per teacher. It will take strong determination and a large, sustained infusion of funding tied to enrollment growth to reach the national class size average. This is vital in order to attract teachers to the workplace by enhancing their working conditions, to provide a competitive or comparable learning advantage to students who now compete globally, and to provide learning options for individualized help and acceleration for students. We urge the Legislature to continue to implement additional class-size reduction measures, using an enrollment-enhanced formula each year to realize smaller instructional settings for all Utah public school children.

Sincerely,



Patti Harrington, Ed.D.
State Superintendent of Public Instruction