REPORT TO THE

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A Performance Audit
of the
Utah Schools for the Deaf and Blind

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Digest of
A Performance Audit of the
Utah Schools for the Deaf and Blind

This report addresses some of the specific concerns of state legislators regarding the Schools for the Deaf and the Blind. The report also describes several management practices that can be improved at the school. Specifically, the school's administration overstated the claim that its year-end cash balance is primarily made up of restricted funds. In fact, contrary to what they told legislators, the school actually has broad discretion in how it uses its cash reserves. Furthermore, the school has not always followed the guidelines described in statute for adjusting teacher salaries each year. To address these concerns and the other broad management issues described in this report, the State Board of Education will need to increase its oversight of the school.

The following summarizes the key findings:

USDB Had Sufficient Funds to Avoid Making Cuts in Staff. The USDB overstated its claim that it was forced to leave vacant six instructor positions in order to comply with the cuts imposed during the Legislature's July 2002 special session. Even after the Legislature reduced the school's non-lapsing balance by $880,000, the USDB still began fiscal year 2003 with an additional $850,000 in surplus funds. We found no support for the claims made by school officials that most of the surplus funds were legally restricted or otherwise committed. In addition to its surplus funds, the USDB also had access to a large amount of federal funds that were owed to the school but not collected. We found that the school had sufficient funds to fully staff its faculty during fiscal year 2003, but instead chose to leave nine positions vacant.

Salary Adjustment Needs to Comply with Established Procedures. During the past two years the USDB has not followed the process required by law for calculating its teachers' annual salary increase. When an adjustment was calculated for fiscal year 2003, mistakes were made that resulted in the teachers receiving less than they should have received. However, for fiscal year 2004, other mistakes were made that produced a greater salary increase than they should have received. Taken together, the mistakes largely balanced each other out.

Management of the School Can Improve. During our review of the overall management of the USDB, we identified three areas where the administration can improve. First, we found that USDB is not following some of the financial management practices that are considered appropriate by most school districts and state agencies. Second, we found that the outside oversight provided to USDB needs to improve. Either the State Board of Education (State Board) needs to be more involved, or the Institutional Council needs to be replaced with a strong governing board. Third, the school needs to do a better job of monitoring its effectiveness. The school does a good job of identifying specific education goals for each individual student. However, they can do a better job of reporting its success in accomplishing those goals. The school should also consider to the individual education plans as they make decisions regarding how to allocate school resources.

Chapter I
Introduction

The Utah Schools for the Deaf and the Blind (USDB) provides a wide range of education services to deaf and blind students statewide. Students are instructed in several settings, including (1) self-contained classrooms where teacher use a special curriculum for the deaf or the blind, (2) in regular public schools where traveling teacher consultants provide instruction to mainstreamed deaf and blind students, and (3) in a parent-infant program for deaf and/or blind preschool students. Unlike the school districts, which receive funding through their own local taxes, the USDB is a state agency that receives its funding through an appropriation from the Legislature.

Legislators asked the Legislative Auditor General to evaluate (1) the cause for the school's large year-end balances, (2) the method used to calculate the annual salary increase paid to the school's teachers, and (3) the overall effectiveness of the school's management.

Utah Schools for the Deaf and the Blind Is a Statewide Resource

USDB serves deaf and blind students that have a wide array of needs.

The USDB enrolls over 1,600 students with a wide range of specialized needs. To accommodate those needs, the USDB has developed several different methods of providing instruction.

USDB Serves Over 1,600 Students

The USDB provides instruction to over 1,600 deaf and blind students. Some students only have a mild hearing or visual impairment. Through the assistance of USDB's traveling consultants, many students are able to enroll in regular school classes. Other students who suffer a serious hearing loss or blindness are taught in "self-contained" classrooms similar to those attended by regular students their age, only the curriculum is adapted to their special needs. The most seriously impaired students are those who suffer multiple disabilities. Not only do they have a hearing or visual impairment – or both – but they also have additional physical and mental disabilities as well. Because of their multiple impairments, the more seriously impaired students require highly specialized training aimed at helping them function independently.

As a statewide resource, the USDB serves students from all school districts in the state. The USDB's mission is to "provide high quality direct and indirect education services to children with sensory impairments ages birth through 21 years and their families in Utah." Figure 1 describes USDB's enrollment for the fall of 2003.

Figure 1. USDB Provides Services to 1,644 Students. During the 2003-04 school year, USDB students will receive instruction in traditional classrooms, through consultants, and in preschools.

	Deaf	Blind	Deaf and Blind	Total
Classroom	248	149		397
Consultant	509	305	111	925
Parent-Infant Program	150	172		322
Total	**907**	**626**	**111**	**1,644**

Self-contained classrooms generally consist of four to eleven students.

Figure 1 shows the number of all deaf and blind students enrolled at the USDB during the 2003-04 school year. Of the 1,644 students listed, 925 students will receive assistance and training from a teacher consultant; of those, 111 are both deaf and blind. An additional 397 students are enrolled in classrooms especially designed for deaf or blind students. Finally, 322 pre-school-aged students are enrolled in a special parent-infant program.

Self-contained Classroom Provides Specialized Instruction. The USDB enrolls students in special "self-contained" classes where students are taught by instructors with special expertise in training deaf and blind students. During the past year, some self-contained classes had as few as four and as many as eleven students at one time. Students with multiple disabilities are also enrolled in special self-contained classes designed to address their unique needs.

Consultant teachers offer individualized instruction to students in the mainstream education system.

Consultant Teachers Provide Instruction in a Student's Regular Public School. Many students with hearing or visual impairments have been successfully placed in the mainstream public school system. For example, with the assistance of an interpreter, many students who are hearing impaired are attending regular school classes and are learning at the same pace as other students their age. However, these students often face unique challenges that require attention from a special consultant teacher provided by the USDB. Consultant teachers are typically assigned from 20 and 90 students and will contact them on a daily, weekly or monthly basis depending on the students' needs. Some consultant teachers may also spend one or two hours a day teaching deaf and blind students who are otherwise enrolled in regular school classes. Consultant teachers play a key role in the education of deaf and blind students in areas where self-contained classrooms are unavailable.

Preschool instruction helps facilitate learning at an early age.

Parent Infant Program Provides Early Intervention. A special parent-infant program is offered to many of the state's youngest deaf and blind children in the state. This specialized instruction helps deaf and blind children develop their communication skills at a young age. If developed early, these skills will greatly increase the chances that a deaf child or a blind child will someday be able to enroll in a regular school class.

Historically, USDB Has Had Surplus Funds

In fiscal year 1993 the USDB had an operating deficit of nearly $200,000. Consequently, significant changes were made to the school's administrative staff, and they were directed by the State Board of Education to never allow the USDB to overspend its budget again. The current administration has taken great care to follow the Board's mandate and has maintained a large cash surplus so that any unexpected expense would not result in another budget shortfall. Since 1994, the year end surplus at the USDB has averaged $1.2 million.

USDB is primarily funded by the Uniform School Fund.

The USDB's primary source of funding is the Uniform School Fund. In addition, the USDB receives funding from other federal and state sources. Expenditures at the school primarily go to instructional services, but transportation costs and other supportive services also represent large expenditure categories. Figure 2 describes the funding sources and expenditure categories for fiscal year 2003.

Figure 2. Funding and Expenditures FY 2003. The USDB's revenues were greater than expenditures in FY 2003.

Revenue Sources	Amount
Uniform School Fund	$ 17,593,300
Dedicated Credits	498,400
Land Grant Trust	826,300
Utah State Office of Education	2,554,500
Department of Health (Medicaid)	637,700
Unassigned Non-Lapsing Funds	415,900
Total	**$22,526,100**
Expenditure Category	**Amount**
Administration	$1,068,800
Resident Care	667,400
Education Support	3,707,100
Student Transportation	2,281,200
Instruction	12,144,000
Support Services	1,656,000
Total	**$21,524,500**
Revenues in Excess of Expenditures	**$1,001,600**

Note: Some FY 2002 non-lapsing funds are included in the funding sources; for example $485,801 in Land Grant Trust was realized in FY 2002, and spent in FY 2003.

The USDB ended FY 2003 with a $1 million surplus.

The USDB's revenues exceeded their expenditures during fiscal year 2003; thus, the USDB ended the year with $1 million in surplus funds. This surplus was carried forward as a non-lapsing balance into fiscal year 2004.

Non-lapsing Fund Balance Examined

Legislators have expressed concern regarding the handling of the USDB's cash surplus during 2002. During the middle of 2002, legislators decided to remove half of the USDB's projected cash surplus in order to cover a portion of the state's budget shortfall. One reason legislators targeted the USDB's surplus cash account was that they wanted to make cuts that would not affect classroom instruction.

USDB's Surplus Funds Were Reduced in Order to Cover the State's Budget Deficit

USDB sustained a one-time reduction of $880,500 in their surplus funds.

In June 2002 the Legislative Fiscal Analyst determined that the USDB would carry-forward a cash surplus of $1.75 million from fiscal year 2002 into fiscal year 2003. Inasmuch as the State of Utah was facing a large budget deficit, the analyst recommended that the Joint Public Education Appropriations Subcommittee use half of that non-lapsing fund balance to help cover the state's budget deficit. In July 2002 the subcommittee adopted the analyst's recommendation and directed that the non-lapsing balance be reduced by $880,500. The committee also expressed the clear intent that the reduction should be made without affecting the quality of classroom instruction.

Shortly after the special session, in August 2002, the USDB issued a report stating that the $880,500 reduction imposed by the Legislature could not be made without reducing the school's base budget. (See Appendix A for a copy of the report). Officials from the USDB said that most of the USDB's carry-forward balance consisted of restricted funds that could not be used to cover the school's basic operating expenses. As a result, the administration decided that the Legislature's reduction to the school's non-lapsing balance needed to be paid from cuts to the school's base budget. Specifically, the administration decided that seven positions would be left unfilled during the 2002-2003 school year—including six teacher positions.

Legislators Wanted to Avoid Cuts That Affected the Classroom

In order to avoid making cuts that would affect the classroom, legislators chose to reduce the USDB's year-end balance.

In January 2003 members of the Joint Public Education Appropriations Subcommittee expressed concern that the school had made reductions in teacher positions even though the committee specifically asked that the budget cuts not affect the classroom. Representative Morgan said that:

> I am really concerned about [the cuts in staff] because it was not our intention... . We saw that there was an amount that was carried forward, that it was a non-lapsing amount, and we, as I remember, thought that we could cut that carry forward without hurting the program, without hurting the students.

Because the USDB's actions seemed to contradict a specific directive by an appropriations subcommittee, Legislators asked that the Auditor General examine the causes for the USDB's large year-end surpluses and verify whether the USDB actually needed to make cuts to its basic instructional program. Our findings in this area are described in Chapter II.

USDB Teachers' Salaries Are Based on School District Averages

Although the teachers at the USDB are state employees, a special provision in the statute requires that they receive salary increases that are comparable to those given by the school districts. State law requires that USDB teachers receive an annual salary increase based on the average of teacher salaries in the state's 40 school districts. Confusion about the formula, and how it should be applied, has raised questions about whether teachers have received the entire salary and benefit increase that they should have received.

Law Stipulates Annual Salary Increase

The annual salary increase paid to USDB teachers is based on the increase paid to teachers statewide.

In 1998 a provision was added to the law establishing a formal guideline for setting USDB teachers' salaries. The guideline essentially states that USDB teachers shall receive an annual salary increase based on a weighted average of the 40 school districts. In 1998 USDB's teacher salaries ranked 39th when compared to the state's 40 school districts. Four years later, during the 2002-2003 school year, the USDB's teacher salaries placed them 4th when compared to the salaries paid by the state's 40 school districts.

To ensure that the USDB teachers salaries reach a competitive level, the statute instructs the State Board to raise the USDB teachers' salaries by 10 percent in any year their salaries are not "ranked in the top ten in 20 year earnings when compared to the 40 school districts" [*Utah Code* 53-25-111(1)(c)]. Figure 3 shows that the USDB has received an additional $1.1 million for salary increases during the last three years.

Figure 3. History of annual salary adjustment. During the past three years, USDB teachers have received a total of 15 percent in salary increases.

Fiscal Year	Percent Increase	Dollar Adjustment
FY 2002	5.99%	$ 407,647
FY 2003	6.08	463,600
FY 2004	2.98	256,800
Total	**15.05%**	**$1,128,047**

By law, the teacher's annual salary increase is based on the salary increase given by regular school districts.

In fiscal year 2002 the USDB was appropriated $407,647 in order to provide its teachers with a 5.99 percent pay increase. The USDB also received appropriations for teacher salary increases during fiscal years 2003 and 2004. In each year, the increases were based on the average salary increase paid by Utah's 40 school districts. USDB teachers have expressed concern that they were not receiving all the money appropriated to them by the Legislature. Legislators asked the Auditor General to determine if the funds appropriated for salaries and benefits did indeed get passed on to the teachers. This topic is discussed further in Chapter III.

Broad Management of School Considered

In addition to their concerns regarding the year end surpluses and the teacher salaries at the USDB, the Legislature asked us to examine the overall management of the school. We examined the USDB's basic management systems and found three areas that require improvement. They include the school's (1) budgetary and financial controls, (2) governance system, and (3) tools for measuring performance and accountability.

Scope and Objectives

To summarize, the Joint Public Education Appropriations Committee asked that the Legislative Auditor General address the following three questions:

1. What is the cause of the large year-end balances reported by the USDB,

2. Are the teachers at the USDB receiving all of the funds appropriated by the Legislature for salaries and benefits, and

3. Is the school generally well managed?

The subcommittee asked that they be presented the results of the audit before they consider the FY 2005 budget for the Utah Schools for the Deaf and Blind.

Chapter II
USDB Had Sufficient Funds To Avoid Making Cuts in Staff

The USDB overstated its claims that it could not comply with the Legislature's budget cuts without reducing its staff. Even after the Legislature reduced the school's non-lapsing balance by $880,000, the USDB still began fiscal year 2003 with another $850,000 in surplus funds. We found that most of the surplus funds were not restricted or otherwise committed as reported to the Legislature by school officials. In addition to its surplus funds, the USDB also had access to a large amount of federal funds that were owed to the school but not collected.

USDB Could Have Easily Weathered The Reduction in Surplus Funds

Although USDB officials claimed otherwise, most of USDB's surplus funds were not restricted.

The USDB could have reduced its surplus funds by the $880,500 as required by the Legislature, paid off their other commitments, and still had $850,000 remaining in surplus cash. Instead, the USDB reported that the Legislature's reduction produced a $510,000 deficit. In order to cover the deficit, the administration decided to leave seven positions vacant. Figure 4 shows the USDB's non-lapsing balance as reported by the USDB administration and the actual balance of surplus funds as determined by legislative auditors. The figure also identifies other uncollected federal funds that were owed to the USDB at the beginning of FY 2003 but were not reported. The data illustrates that the USDB could have sustained a reduction to their fund balance without reducing the number of staff it employed.

Figure 4. USDB's Actual Non-lapsing Balance on July 1, 2003. Instead of the $510,000 deficit reported by the USDB, they actually had an $846,000 surplus at the beginning of FY 2003.

Explanation of Funds	Reported Funds Available	Actual Funds Available
FY 2002 Non-lapsing Balance	**$1,409,951**	**$1,409,951**
Restricted Funds:		
Permanent Trust Land Funds	($485,802)	
FY 2003 Contingency Fund	(400,000)	
School Trust Land Carryover	(19,347)	($19,347)
Braille Literacy Carryover	(14,587)	(14,587)
FY 2003 Projected Medicaid State Match	(120,000)	(69,641)
Uncollected Federal Funds:		
Uncollected IDEA Funds		258,000
Uncollected Medicaid Funds (less match)		161,828
Non-lapsing Balance Plus Uncollected	$370,215	$1,726,204
FY 2003 Reduction Imposed	**($880,500)**	**($880,500)**
FY 2003 Total Funds Available	**($510,285)**	**$845,704**

The permanent trust lands funds and contingency fund are not restricted accounts.

The column titled "Reported Balance" in Figure 4 shows the USDB's non-lapsing balance, or cash surplus account, as reported by USDB officials. They reported a carry forward balance of $1.4 million at the end of the FY 2002. In addition, school officials claimed that there was only $370,215 in unrestricted funds remaining after backing out the five restricted accounts. As a result, the USDB claimed that the Legislature's reduction of $880,500 produced a deficit of $510,285.

The "Actual Balance" column in Figure 4 shows the amount of unrestricted funds and other funds that were available at the beginning of fiscal year 2003. The permanent trust lands funds and the contingency fund were not restricted or formally committed to specific USDB operations. On the other hand, the School Trust Land Carryover and the Braille Literacy Carryover were restricted accounts. In addition, the USDB did not need as much money for their state Medicaid match as they reported. Finally, the USDB postponed claiming a considerable amount of funds under two federal programs—the Individuals with Disabilities Education Act (IDEA) and Medicaid—but did not disclose those delayed claims in their reports to the Legislature. As a result, the USDB had access to nearly $1.7 million at the end of fiscal year 2003—roughly the amount that the Fiscal Analyst said was available. After the Legislature reduced the cash surplus account by $880,500, there remained a balance of $849,379 to cover any contingencies the USDB may have had during the year. The next two sections of this chapter describes USDB's cash surplus in greater detail.

Most of USDB's Year-end Balance Was Not Restricted

The USDB overstated its claims that most of year-end cash balance consisted of restricted funds. In fact, we found no restrictions on most of the school's year-end cash balance. For the most part, the only restriction was that the funds needed to be spent on the education of deaf and blind students.

USDB Claimed That Most of its Surplus Funds Were Restricted

USDB officials overstated their claims that the school's cash balance consisted of restricted funds.

In July 2002, the Utah State Legislature held a Fifth Special Session in order to find ways to cover a statewide budget shortfall. During a meeting of the Joint Public Education Appropriations Committee, the Legislative Fiscal Analyst reported that the USDB had a non-lapsing, year-end balance of about $1.7 million. The analyst suggested that the Legislature could reduce that amount by half without affecting classroom instruction. The Legislature accepted the analyst's recommendation and reduced the year-end balance by $880,500.

In August of 2002 and again in January 2003, the USDB reported that the actual amount of the year-end balance was $1.4 million. In addition, school officials said that a reduction could not be made to the year-end balance because most of the funds in that account had already been committed to certain USDB programs. School officials used terms such as "committed," "restricted" and "dedicated credit" to describe the limited discretion that they had in deciding how to use those funds. School officials also said they were "not just statutorily, but constitutionally" required to use the school's year-end funds for certain designated activities.

We determined that only the two smallest accounts described in Figure 4 (on page 10) were restricted and that the majority of the carry forward balance was not. The USDB has a legal obligation to use the School Trust Land Carryover and the Braille Literacy Grant for certain purposes. On the other hand, the USDB has broad discretion in how to use the funds in the three remaining accounts. The following describes the reasons why it was inaccurate to describe the permanent trust land funds, the contingency funds, and the Medicaid match as restricted funds.

Permanent Trust Lands Funds Are Not Restricted

No legal restrictions have been placed on the USDB's use of the Permanent Trust Land Fund.

It was inaccurate for the USDB to suggest that the Permanent Trust Lands Fund was somehow restricted and could not be used to cover the school's operating expenses or instructor salaries. In the Utah Enabling Act, the U.S. Congress set aside a certain amount of trust lands to provide for the education of deaf and blind children. The proceeds from the trust lands are managed by the School and Institutional Trust Lands Administration and are distributed to the USDB each year. In a presentation to a legislative committee, school officials said that "these funds are restricted pursuant to **Utah Code** Annotated 53A-25-306." In fact, that section only states that the funds are restricted in the sense that they must be used for deaf and blind education.

There are no legal restrictions on the use of the USDB's contingency fund.

In the past the USDB has had broad discretion in its use of the Permanent Trust Lands Fund. Distributions from the fund have been used for many different types of operating and personnel expenses and in practically every different unit within the USDB organization. It is therefore difficult to understand why the USDB couldn't continue to use those funds for similar expenses during fiscal year 2003. In our view, nothing prevented the USDB from using Permanent Trust Lands Fund to pay for the seven positions that the USDB chose to leave vacant. Instead, the administration chose to retain those funds in its cash reserve.

FY 2003 Contingency Fund Could Have Been Used for the Budget Shortfall

The USDB could also have used its contingency fund to cover the school's operating expenses rather than retaining those funds as a cash reserve. To justify their decision to preserve the school's contingency fund, school officials told legislators that the fund was restricted and cited as evidence Administrative Rule R277-800-11 B,2, a. In fact, the administrative rule cited only places an upper limit on the size of the contingency fund. It directs the USDB to "maintain a contingency fund of up to 7.5 percent... ." The law does not prevent the USDB from drawing down those funds. In fact, the purpose of a contingency fund is to provide funds during a time of need—such as the situation in which the USDB found itself during fiscal year 2003. Most other state agencies experienced a very tight budget during fiscal year 2003 and, as a result, were forced to draw down their contingency funds. Similarly, the USDB should have used its contingency fund for the purpose for which it was intended—to cover a budget shortfall.

The Amount of Medicaid State Match Was Overstated

USDB overstated the amount it had budgeted as the state Medicaid match.

The USDB also overstated the amount of money it was required to pay as a state match for its Medicaid reimbursements. Each year the USDB is reimbursed for the cost of medical care for students who are covered under the federal government's Medicaid program. According to its fiscal year 2003 budget, the USDB planned to submit Medicaid claims totaling $234,957 that year. The required state match for that reimbursement would have been 29.64 percent, or $69,641. However, in their report to the Legislature, the USDB indicated that its state match would be $120,000. School officials overstated the amount actually needed to cover its budgeted Medicaid claims by $50,359.

Federal Funds Were Available To Cover Budget Shortfall

In addition to its non-lapsing balance, the USDB also had access to $422,000 in uncollected federal funds that could have been used to cover the school's operating expenses during fiscal year 2003. In recent years, the USDB has consistently held a large non-lapsing balance at the end of each fiscal year. For this reason, school officials decided not to seek a timely reimbursement for their expenses under certain federal programs.

More IDEA Funds Could Have Been Recovered

The Individuals with Disabilities Education Act (IDEA) provides special funding to schools that teach students with disabilities. In the past, the USDB has applied for its IDEA reimbursements about once each quarter. However, beginning in 2001, the USDB chose to defer collecting its IDEA funds until after the close of the fiscal year. At the time the school already had a large cash surplus account. So, rather than filing claims that would add to that balance, school officials decided to delay their request for reimbursement until the next fiscal year. Since that time, the USDB has always applied for its IDEA funds in the September following the close of the fiscal year in which the qualifying expenses were made. In contrast, we found that most school districts apply for IDEA reimbursement soon after they incur eligible expenses.

If USDB had claimed its federal IDEA grant in a timely manner, another $258,000 could have been made available.

During fiscal year 2003, if the USDB had collected its IDEA funds in a timely fashion, the school would have had an additional $258,000 that could have been used to cover its operating costs and avoid reductions in staff.

USDB Delayed its Reimbursement from Medicaid

As mentioned, the USDB is reimbursed for the medical costs of students who qualify for the federal Medicaid program. School officials have adopted the same approach to claiming Medicaid reimbursements as it has for claiming IDEA reimbursements. The school does not file for reimbursement until many months after the school is eligible. At the beginning of fiscal year 2003, the USDB was about eight months behind in filing its Medicaid reimbursements. The Utah Division of Health Care Financing administers the Medicaid program in Utah. Division personnel told us most institutions file their claims on a monthly basis and the USDB could do so as well.

On July 1, 2003 the school had about $230,000 in unpaid Medicaid claims. If the USDB had applied for its Medicaid reimbursement in a more timely manner, the school would have been required to pay a state match of 29.64 percent—or $68,172. The remaining $161,828 could have been used by the USDB to provide services to students during fiscal year 2003.

If Claimed, Federal Funds Would Put USDB over its Reserve Limits

USDB has not followed the intent of the administrative rules limiting the size of the school's fund balance.

If the USDB had claimed its federal funds in a more timely manner, it would have exceeded the legal limit placed on the size of its unrestricted cash reserves. The USDB is governed by administrative rule R277-800-11(2)(a), which requires the USDB to keep its unrestricted fund balance under seven and one-half percent of the total of its unrestricted revenues. At the close of fiscal year 2002, the USDBs fund balance was 7.2 percent of its unrestricted revenues. However, the USDB's fund balance did not include the $422,000 in IDEA and Medicaid funds that should have been claimed if the school had been following proper financial management practices. By including the federal funds, the USDB's fund balance would have been 8.8 percent of the school's total revenue.

The intent of the administrative rule is to prevent the USDB from holding an excessive amount of surplus funds. By delaying its claims for certain federal reimbursements, the USDB complied with the technical requirement of the rule but, in our opinion, did follow the rule's intent.

Budget Cuts Did Affect the Quality Of Classroom Instruction

In July, 2002, during the Fifth Special Session, legislators took great care to make no budget cuts that would affect classroom instruction. We found that actions taken by USDB officials did, in fact, affect the quality of classroom instruction in many regions. However, due to the school's lack of performance measures (discussed in Chapter IV), we found it difficult to quantify the effect of the reduction in instructors. In addition, we found that the reduction in instructors affected some USDB regions more than others.

USDB Reduced Instructor Positions

During FY 2003, nine instructor positions were left vacant, not the six reported by USDB.

To cover the $880,500 one-time reduction of surplus funds, the USDB reduced staff and cut current expenses by 18 percent. According to the previously mentioned report presented by the school officials to the

Joint Education Appropriations Committee, the USDB determined that the school needed to leave vacant one administrative position and six instructor positions. However, we found that, in reality, about nine instructor positions went unfilled in FY 2003.

Nine Instructor Positions Left Vacant. We found that the actual number of positions left vacant were somewhat different from those described to a legislative committee by the USDB. First, the USDB reported that a consultant position in the Dual Sensory Program was left unfilled—but, in fact, this position was already filled before the school presented its report to the Legislature. In addition, we found four additional instructor positions that were left vacant during fiscal year 2003 that were not included in the report to the Legislature. In all, there nine instructor positions and one assistant director position left vacant in fiscal year 2003. The rest of this chapter describes some of the effects that these reductions had on classroom instruction.

Instructor Workloads Were Increased

Due to the loss of certain instructor positions, some classes had to be combined.

It would be difficult for the USDB to lose nine instructor positions without increasing the workload of remaining instructors and staff—especially since overall enrollment increased 5.5 percent from the 2001-2002 school year to the 2002-2003 school year. However, because the USDB does not have adequate performance and workload measures in place (a problem discussed in Chapter IV), we found it difficult to quantify the increase in student-teacher ratios systemwide. Nevertheless, by examining some of the class rosters and by interviewing administrators and instructors, we were able to obtain enough information to conclude that the vacancy of nine instructor positions did affect the quality of instruction at the USDB. We made the following observations:

1. Instructors reported difficulty providing effective instruction because of increased workloads.

2. Some consultant teachers experienced a significant increase in their caseload.

Increasing Class Sizes Reduced Teacher Effectiveness. High student-teacher ratios is a concern in any educational environment. However, a high student-teacher ratio is especially problematic for deaf or blind students. Because so much depends on their developing communication skills, a deaf or blind student's personal interaction with an instructor is very important to his or her success in school. For this reason, student-teacher ratios must remain low.

Due to the number of faculty positions that were left vacant during fiscal year 2003, there were several classes in which the student-teacher ratios increased significantly. For example, during fiscal year 2003 there was a classroom where one instructor was responsible for a class of 11 deaf students. The class had been divided between two instructors in FY 2002. In addition to their hearing impairment, each student had at least one additional learning disability. The fact that many of the students were learning English as a second language also added to the difficulty of teaching that class. Furthermore, students' education levels ranged from grades four to six in the class—putting an extra strain on the instructor who needed to create a unique lesson plan for each student.

Consultant teachers have had caseloads as large as 90 or 100 students.

Some Consultant Teachers Experienced a Significant Increase in their Caseload. The teachers who visit students in their homes or at the regular public school where they are enrolled are called teacher consultants. Consultants have much larger caseloads than classroom teachers because they are not normally the student's primary instructor. Students who are served by a consultant are typically enrolled in a regular public school and attend classes with those who are not hearing or visually impaired. Because some vacant positions at the USDB have remained unfilled, some consultant teachers have seen substantial increases in their workloads. We found that one consultant had as many as 100 students assigned to her. This consultant teacher also travels an average of 1,130 miles a month. Another consultant teacher visits 90 students per month. This consultant told us she was working 10 to 11 hours a day so she could make all her visits.

In conclusion, we found that the administration made inaccurate statements when it described the school's cash reserves as being restricted. The USDB chose to retain a large amount of surplus funds at a time when the school needed to use those funds to pay for vacant instructor positions. The loss of instructor positions did affect the quality of instruction and was contrary to the legislators' intent that the budget reductions not affect classroom instruction.

Recommendations

1. We recommend the USDB use the contingency fund as it was intended to supplement operations during years of budget shortage.

2. We recommend the federal reimbursement funds (IDEA and Medicaid) be recovered at least quarterly during the year instead of waiting until the next fiscal year to recover the full amount.

3. We recommend that the Utah State Board of Education define the appropriate use of USDB's Trust Land Funds so that there will be no misunderstanding regarding any restrictions placed on the use of those funds.

Chapter III
Salary Adjustment Needs to Comply with Established Procedures

During the past two years the USDB has not followed the process required by law for calculating its teachers' annual salary adjustment. When the salary adjustment was calculated for fiscal year 2003, mistakes were made that resulted in USDB teachers receiving less than they should have received. However, for fiscal year 2004, other mistakes were made that produced a greater salary increase than they should have received. Taken together, the mistakes largely balanced each other out.

USDB Teacher Salaries must Be Linked to District Salaries

The required process for adjusting teacher salaries has not always been followed.

In order to keep USDB salaries competitive, the Legislature decided that the annual salary increase paid to USDB teachers should be based on the weighted average increase paid to school teachers statewide. However, during the past three years, some USDB teachers have questioned whether the process has been followed and whether they have received the full salary adjustment that is required by law.

The Law Clearly Describes How to Calculate Each Year's Salary Adjustment

The *Utah Code* 53A-25-111 lays down the following process for adjusting the salaries of USDB teachers each year:

> The board (State Board of Education) shall adjust the salary schedule applicable to non-administrative licensed staff at the school each school year. The board shall make the adjustment equal to a weighed average adjustment for non-administrative licensed staff adopted by the public school districts of the state as determined by the State Office of Education. This average shall be weighted by the number of teachers in each district... Administrative, licensed, and non-licensed staff at the school shall receive the same benefits as those provided to state government employees.

To summarize, the statute requires that three things happen when calculating the salaries for USDB teachers:

1. The State Board of Education must oversee the process of adjusting teacher salaries at the USDB.

2. The salary adjustment must equal the weighted average of the annual salary increases paid by the public school districts.

3. The teachers must receive a benefit package that is comparable to those paid to other state employees.

We found three instances in which the guidelines for setting teacher salaries were not followed.

These three requirements have not always been followed. The State Board of Education has provided little if any oversight to the process of adjusting teacher salaries at the USDB. In addition, the salary adjustment has not always been based on the weighted average of the salaries paid by public school districts. Finally, the funding for the increased cost of benefits has not always been handled correctly. Each of these concerns are described below.

Salary Adjustment Procedures Have Not Been Followed

USDB teachers received less money than the statute requires in FY 2003, but more in FY 2004.

The process described in the *Utah Code* for calculating the annual salary adjustment for USDB teachers has not been followed. For some reason, the salary increase for fiscal year 2003 was $26,620 higher than it should have been. In order to give teachers the 6.08 salary increase that they should have received, the appropriation should have been $436,980. Instead, the USDB was appropriated $463,600. At the same time, no funds were appropriated for the increased cost of the teachers' benefits package in fiscal year 2003. In order to cover the increased cost of the benefits package, USDB officials decided to reduce the amount of the teachers' salary adjustment. As a result, the salary adjustment for fiscal year 2003 was far less than it should have been.

During fiscal year 2004 the salary increase was higher than it should have been because the salary adjustment was based on both the cost-of-living increase and the increased cost of benefits. The salary increase calculations should only have been based on the average cost of salaries and should not have included benefits. Because the increased cost of benefits was also included in the USDB's general appropriation, the teachers were essentially paid twice for the increased cost of their benefits.

Mistakes in calculations have slightly increased USDB teachers' salaries.

The combined effect of the mistakes in calculating the salary adjustment during fiscal year 2003 and fiscal year 2004 is that the teachers' compensation package was about $2,019 more than it should have been. Individually, teachers' salaries are about $15 more per year than they would be if the process described in statute had been followed.

Salary Adjustment was Too High in FY 2003 But Excess was not Applied to Teacher Benefits

For fiscal year 2003 problems existed both in the calculation and allocation phase of the salary adjustment. These problems were,

- The salary increase appropriation was $26,620 larger than it should have been.
- No appropriation was made for USDB teachers increased cost of benefits.
- The USDB administration could have used at least part of the appropriation to pay for the teacher's benefits.

USDB teachers were appropriated a 6.08 percent increase in FY 2003 but received a 3.85 percent increase.

USDB received an excess appropriation of $26,620. The USDB was appropriated $463,600 for teacher salary increases. Based on the payroll data provided by the USDB, we could not find support for an appropriation about $436,000. Apparently, there was some confusion regarding the size of the USDB payroll. Although, the administration was correct in asking for a 6.08 percent salary increase for its teachers, it applied that salary increase to a much larger payroll than the school actually had. As shown in Figure 5, the result was an appropriation that was $26,620 larger than it needed to be in order to give teachers the required 6.08% salary increase.

Figure 5. FY 2003 Appropriation Too High. The appropriation for the FY 2003 salary adjustment was $26,620 higher than was needed to provide teachers the required 6.08 percent salary increase.

Amount Appropriated for the FY 2003 Salary Increase:	$463,600
Amount Needed for the Required 6.08 Salary Increase:	– 436,980
Portion of Salary Adjustment Applied to General Budget:	26,620

Figure 5 shows that in Fiscal Year 2003 the USDB was appropriated $463,600 for its teacher's annual salary adjustment. However, only $436,980 was needed to give teachers the required 6.08 increase, there remained an additional $26,620 which was applied to the USDB general budget.

Teachers Did Not Receive an Appropriation for Increased Benefit Costs in FY 2003. Due to a misunderstanding by the fiscal analyst of the data provided by the USDB, no appropriation was made during fiscal year 2003 for the increased cost of benefits. As a result, USDB teachers were not appropriated $143,961 that was needed to cover the higher cost of the teacher's benefit package for fiscal year 2003. The USDB administration decided to pay for the cost of those benefits by reducing the teachers' salary increase from 6.08 percent to 3.85 percent.

USDB teachers were appropriated a 6.08 percent increase in FY 2003 but received a 3.85 percent increase.

Figure 6. Teacher's Salary Adjustment for FY 2003. A portion of the salary adjustment for fiscal year 2003 was used to cover the increased cost of benefits.

Applied to Teacher's Compensation Package		Portion Applied to Increased Cost of Benefits		Portion Applied to Salary Increase
$436,980	–	$143,961	=	$293,019
6.08%		2.20%		3.85%

Figure 6 shows that $436,980 was needed to give teachers a 6.08 percent salary increase during fiscal year 2003. The USDB administration chose to use a portion of that salary increase to cover the increase in the cost of the teacher's benefit package. As a result, teachers only received a 3.85 percent salary increase.

Some Funds Appropriated for the Salary Increase Were not Applied to the Teacher's Compensation Package. We disagree with the administration's decision to pay for the increased cost of benefits from the funds appropriated for the salary adjustment. According to ***Utah Code*** 53A-25-111, teachers should have received a salary increase of 6.08 percent and the increased cost of benefits should have been paid from other funds. Ideally, the USDB should have contacted the fiscal analyst and asked for a supplemental appropriation during one of the numerous special sessions that year. In addition, the USDB had access to discretionary monies that could have been used to pay for the increased cost of the benefit package. However, at the very least, the administration could have used the difference between that portion of the appropriation that was funded ($463,600) and the amount needed to give teachers a 6.08 percent increase (436,980) to pay for a portion of the unfunded benefit package. Instead, the excess portion of the appropriation was not applied toward the teacher's compensation package. Those funds were used elsewhere.

Teachers Received Two Appropriations For Increased Benefit Cost in FY 2004

In fiscal year 2004, as in fiscal year 2003, the USDB teachers did not receive the salary increase they should have received. However, instead of receiving less than the law required, the USDB teachers received $145,980 more than required. The excess appropriation was the result of two factors:

- The salary adjustment included both the cost-of-living increase as well as the increased cost of benefits.
- An *unweighted* average increase was used.

As a result of the above factors, USDB teachers were overpaid by roughly the same amount they were underpaid the prior year.

In FY 2004, USDB teachers were paid twice for the increased cost of benefits.

Benefits Were Wrongly Included in Calculations. The salary adjustment provided for fiscal year 2004 was higher than it should have been because it included the cost of both salaries and benefits for the state's 40 school districts. The calculation should only have included the average increase in the teachers' salaries. The result was that the USDB teachers were given a much larger salary increase than required by the statute. Essentially, the cost of teacher benefits was paid twice—once within their salary increase and then again in a separate appropriation for employee benefits.

As mentioned previously, the USDB teachers (pursuant to ***Utah Code*** 53A-25-111-4) should have received the same benefits as all state government employees. Further, the ***Utah Code*** 53A-25-111(1)(a) states that only salary shall be adjusted on an annual basis. Thus, the inclusion of benefits in the calculation of the 40 school districts is unlawful and unnecessary.

An unweighted average was used in FY 2004, even though the *Utah Code* requires that a weighted average be used.

Use of an Unweighted Average Salary Produced a Higher Salary Adjustment. Instead of using the weighted average, as required by the statute, the fiscal year 2004 salary increase was based on a simple average of the salary increases paid by the 40 school districts. Apparently USDB officials determined that using an unweighted average would produce a higher salary adjustment than the weighted average. Thus, the unweighted figure was used. However, as previously mentioned, ***Utah Code*** 53A-25-111(1)(b) clearly mandates that a weighted average be used. The use of an unweighted average increased the total appropriation for salary increases by $14,459.

Teachers Were Paid $145,980 More than They Should Have Been. The FY 2004 salary increase was higher than it would have been if the law had been followed. Figure 7 compares the actual appropriation to the amount that should have been appropriated.

In FY 2004 USDB teachers were appropriated a 2.98 percent increase but should have received a 1.47 percent increase.

Figure 7. USDB Overestimated the Salary Adjustment for FY 2004. During fiscal year 2004, the USDB teachers were effectively paid twice for the increased cost of benefits.

Amount that should have been Appropriated	Amount Overpaid Due to Inclusion of Benefits	Actual Appropriation
$110,820	$145,980	$256,800
1.47%	1.51%	2.98%

Figure 7 shows that if the process described in statute had been followed, USDB teachers would have received a salary increase of $110,820 or 1.47

percent. Instead, they received $256,800 or an increase of 2.98 percent because the increased cost of benefits (or $145,980) was added to the salary adjustment. As a result, teachers received a salary increase of 1.51 percent more than they should have received.

USDB Should have Notified the Legislature that a Mistake had Been Made. Although there was clearly a mistake made in the fiscal year 2003 appropriation, the USDB compounded the problem by not bringing the matter to the attention of the Legislature. Instead, the administration decided that the teachers would not receive the salary and benefits package that was required by law. Instead the administration chose to cover the added cost of benefits from the salary adjustment. To further compound the problem, the USDB included both the salary and benefits in the next year's salary adjustment. However, unlike the fiscal year 2003 appropriation, the fiscal year 2004 appropriation included funds for the teachers' benefits package. As a result, the teachers were paid twice for the added cost of benefits in fiscal year 2004.

If a mistake is made to an appropriation, the appropriate response is to notify the fiscal analyst.

When mistakes are made in an appropriation, the proper response is to notify the fiscal analyst or one of the chairmen of the appropriations subcommittee. Then, the Legislature can correct the problem by making a supplemental appropriation either during the next legislative session or during a mid-year special session. Furthermore, even without a supplemental appropriation, the USDB had sufficient funds to pay for the added cost of teacher benefits. The added cost of benefits in fiscal year 2003 did not need to be paid from the annual salary adjustment.

Problems with Salary Adjustment Had a Small Effect on Instructor Salaries

Between FY 2003 and 2004, the teachers were paid $7,206 more than they should have been if the rules were followed.

The net dollar effect of the problems with the annual salary adjustment is not significant. It appears that the miscalculations in fiscal year 2004 made up for the shortfall in fiscal year 2003. The following figure illustrates the net effect of the mistakes made to the salary adjustment during the last two years.

Figure 8. USDB teachers have been overpaid $7,206 in a two-year span. Between mistakes made in FY 2003 and FY 2004, USDB teachers have been slightly overpaid.

Fiscal Year	Actual Salary Increase	Correct Salary Increase	Difference
2003	$293,019	$ 436,980	($143,961)
2004	256,800	110,820	145,980
Over Payment			**$ 2,019**

Figure 8 shows that the shortfall in the amount of the salary adjustment in fiscal year 2003 was more than compensated by the over-payment made for fiscal year 2004. In all, USDB teachers as a group were paid $2,019 more during the past two years than they should have been if the process required in the statute had been followed. Regardless of the small dollar effect, we believe that changes must be made to ensure that all future salary adjustments comply with the statute.

Greater Oversight Needed Of Salary Adjustment Process

The problems the USDB has had with the annual salary adjustment suggest that the process requires greater oversight. In our view, oversight should primarily come from the USDB finance director and the Utah State Board of Education. Those calculating the salary adjustment should prepare a report each year that describes how the annual salary adjustment was determined and include all supporting information. The report should then be made available to the Board of Education and the Legislative Fiscal Analyst so they can verify that the proposed increase complies with the requirements of the statute.

More Oversight of Salary Adjustment Needed Within USDB

The administration has not adequately supervised the process of calculating the annual salary adjustment.

The USDB's finance director and superintendent have not been adequately involved in the process of establishing the annual salary adjustment. Instead, a budget officer and a teachers' union representative have been responsible for calculating the annual salary adjustment. In our view, the process of calculating the salary adjustment needs to be overseen by the finance director and the superintendent.

There has been a tendency for those calculating the annual salary adjustment to try out different figures until they arrive at the highest salary adjustment possible. For example, in some cases the finance director suggested that one figure be used as the basis for calculating the salary adjustment while the budget officer assigned to calculate the annual salary adjustment chose to use a completely different figure that was more advantageous to the teachers. Such inconsistencies provided unnecessary confusion and doubt as to whether the calculation of the salary adjustment was done properly. We believe that USDB's finance director should provide oversight of the salary adjustment process by checking the calculations and ultimately attesting that the calculations are correct.

State Board must Review and Formally Approve the Salary Adjustment

State Board must verify that salary adjustments are done correctly.

The statute requires that the Utah State Board of Education oversee the calculation of the annual salary adjustment. In the past neither the Board nor the finance and budget officer at the State Office of Education have reviewed the calculations that went into the salary adjustment at the USDB. Because the statute requires that "board shall adjust the salary schedule applicable to non-administrative licensed staff at the school each school year," it appears that the State Board has a statutory responsibility to verify that the calculations are done correctly. Ideally, the calculations should be reviewed by a budget and finance officer at the State Office of Education and then presented to the State Board of Education for formal approval. The lack of Board oversight of the salary adjustment as well as other concerns about the finances at the USDB are discussed in greater detail in Chapter IV.

Legislative Fiscal Analyst Should Carefully Scrutinize Process for Three Years

The Legislative Fiscal Analyst should carefully review the salary adjustment calculations for at least three years. This careful scrutiny will help ensure that the figures used to calculate the annual appropriation are correct and comply with the statute. The analyst should require that the USDB provide documentation of the figures used to calculate the salary adjustment. The analyst also needs to make sure that the USDB receives the same increase in the cost of their benefit package as other state agencies.

Recommendations

1. We recommend that the process described in ***Utah Code*** 53A-25-111 be followed: (1) the State Board of Education must oversee the process of adjusting teacher salaries at the USDB and formally approve the salary adjustment, (2) the salary adjustment must equal the weighted average of the annual salary increases paid by the public school districts, and (3) the teachers must receive a benefit package that is comparable to those paid to other state employees.

2. We recommend that the finance director at the USDB review the calculations used to determine the annual teachers' salary adjustment and attest to the accuracy of the proposed adjustment.

3. We recommend that the proposed annual salary adjustment and the data used to calculate the annual salary adjustment be presented in a report as part of the USDB's annual budget proposal. The report should be presented for review by the Utah State Board of Education, the State Office of Education, and Legislative Fiscal Analyst.

4. We recommend that if benefits are left out of a future appropriation, than the USDB should request a supplemental appropriation during the next special session or general session of the Legislature.

Chapter IV
Some Management Practices Can Improve

During our review of the overall management of the USDB, we identified three areas where the administration can improve. First, we found that the USDB is not following some of the financial management practices that most school districts and state agencies consider appropriate. Second, we found that the outside oversight provided to the USDB needs to improve. Either the State Board of Education (State Board) needs to be more involved, or the Institutional Council needs to be replaced with a strong governing board. Third, the school needs to put greater emphasis on achieving results. The school does a good job of identifying specific education goals for each student. However, they can do a better job of monitoring the school's success in accomplishing each student's individual goals. The school should also use the individual education plans as they consider how to allocate school resources.

The USDB Needs to Strengthen its Financial Management

USDB needs stronger internal and external financial management.

With regard to the school's finances, officials at the USDB have done a good job of addressing a primary concern of the State Board—that they never overspend their budget. However, the administration's focus on maintaining a large cash reserve may have led them to make poor financial decisions, including the decision to leave several positions vacant during fiscal year 2003. In addition, we found problems with some of the school's accounting practices, the way the administration manages the budget, and the appropriateness of some spending practices. We have concluded that the USDB, as an organization, needs to improve its financial management. First, the administration needs someone with strong financial management skills, and, second, the school needs a governing board that can give greater attention to the school's finances.

USDB Was Told to Increase its Cash Reserves

In 1993 the USDB created a serious problem for the State Board by overspending its budget by several hundred thousand dollars. At the time, the USDB administration was directed to never allow the school to again overspend its budget. In fact, an internal audit by the State Office of Education recommended that "USDB management should become more conservative in their management approach by overestimating expenses and/or underestimating revenues."

In the years since 1993 the administration has been very careful to make sure that the school always has sufficient funds on hand to meet any unexpected need. In fact, the administration's focus on maintaining a large cash surplus appears to be the cause for some of the problems associated with the school's large year-end balance. The administration has been so concerned about maintaining a large cash reserve that they have made poor financial decisions in other areas.

Some Financial Management Practices Raise Concern

In addition to the problems described in Chapters 2 and 3, we found a number of financial management practices that are generally considered inappropriate. It appears that the USDB can do a better job of planning its expenditures, of communicating the school's financial status to regional directors, and of managing the school's surplus funds. The following describes some of the questionable financial management practices we found at the USDB:

USDB follows some financial management practices that are not considered appropriate by most school districts.

- As described previously in Chapter II, most school districts apply for their Medicaid reimbursements and IDEA grants in a timely manner. However, the USDB requests reimbursement as long as one year after the school is eligible for those funds. One reason given for delaying the reimbursement request was receiving the funds would only add to the school's cash reserves and raise additional concerns about the size of the carry forward balance.

- The Institutional Council is poorly informed about the school's finances and is not adequately involved in some of the important financial decisions facing the USDB. See page 38 for examples.

- The school's calculation of the annual salary adjustment contained several errors, suggesting a lack of care on the part of the staff who prepared the calculation and a lack of review and oversight by the USDB administration.

- Budgets for personnel costs are always too high because the administration's budget does not anticipate enough savings through vacancies, absences due to illness of non-benefitted employees and other factors. The result is a large amount of surplus funds or "vacancy savings" at the end of each fiscal year.

- Poor communication by the administration led some regional directors to be overly conservative in their spending practices during the beginning of fiscal year 2003. As a result, some critical positions were unnecessarily left vacant.

- Due to the large amount of vacancy savings that has accrued in recent years, the USDB has used what it calls "wish list spending" to spend down its surplus cash. Regional directors are asked to submit "wish lists" of items that could be quickly approved and purchased before the close of the fiscal year. In fiscal year 2003, the items purchased from the wish lists totaled over $800,000 and included palm pilots, bicycles, computers, flat screen monitors, textbooks, hearing aids, and CCTV's.

- Due to poor accounting, the actual amount of vacancy savings was only $600,000 in fiscal year 2003. As a result, the school's wish list spending exceeded the actual amount of vacancy savings by $200,000 creating a deficit which was then covered from the excess funds in school's budget for professional development and transportation.

No USDB funds have been misappropriated or used for anything but legitimate school expenses.

We Found No Evidence That USDB Funds Had Been Misappropriated or Used for Anything but Legitimate School Expenses. However, we believe the school could use its resources more efficiently if it prepared a more accurate budget and then monitored its expenditures throughout the year. In recent years, the school's administration has had a tendency to impose very tight limits on spending during the beginning of each fiscal year only to find that there is a large cash surplus at the end of the year. During two of the past four years, the school has ended the year by hurriedly spending down its cash balance in order to avoid having a large carry forward balance. Because the focus has been on quickly spending down the surplus, the school has not done enough to make sure that those resources are allocated to the programs and regions with the greatest need. As a result, the practice does not lead to the most efficient use of public funds.

The USDB Administration Needs a Qualified Finance Officer

The USDB needs a finance officer who can help the school fully utilize the resources available without overspending its budget. In addition, the school also needs someone who can clearly explain the school's finances to the State Board and the Legislature. During some past presentations to the Legislature, school officials have made statements that demonstrate a lack of understanding for the school's finances. This, in turn, has led legislators, USDB staff, and interested stakeholders to question if the school's finances are properly managed.

Some of the problems we observed with the school's finances can be attributed to the lack of a well-qualified finance director. Though the current finance director has many years experience working in a variety of roles within the USDB, the person currently holding the position has neither the education nor the experience in budgeting and finance that is normally required of the finance director for an institution of public education.

Of the school districts we surveyed, each finance director except USDB's had at least a bachelor's degree.

We surveyed nine school districts in the state, both large and small, and asked them to describe the qualifications of their finance director. We found that all the finance directors had at least a bachelor's degree and several years of experience in education finance. Many have advanced degrees and some have a CPA. The USDB's current finance director has only a two-year degree in accounting although she has worked many years in the school's finance and personnel departments.

Inasmuch as the current finance director is approaching retirement, we recommend that when the administration hires a new finance director they select a person with the experience, education, and training needed to navigate the complex finances of the USDB.

USDB Needs a Finance Officer Who Can Explain the School's Finances to the State Board and Legislature. During the 2003 Legislative session, school officials made several statements that demonstrated a lack of understanding of the school's finances. We prefer to assume that school officials were misinformed about the school's finances and did not intend to mislead legislators. For example, during a January 2003 meeting of the Joint Public Education Appropriations Subcommittee, one school official gave several reasons why the school could not comply with the Legislature's reduction of the school's fund balance without eliminating teacher positions. The school official incorrectly stated that there were statutory and constitutional mandates that prevented the school from using certain funds to cover the cost of those teacher salaries.

The comments made by school officials to the Legislature demonstrate a poor understanding of the USDB's finances.

School officials have also made incorrect statements regarding the makeup of the school's carry-forward balance. For example, one school official told legislators that some of the school's carry-forward balance consisted of federal IDEA funds. He said that because the state fiscal year ends in June and because the federal fiscal year ends in September, a portion of the carry forward balance was comprised of these federal funds that had been allocated according to the federal fiscal year. For this reason, the carry-forward balance consisted of some federal funds that needed to be carried forward past the end of the state fiscal year and spent during the remainder of the federal fiscal year.

The fact is that the school's IDEA and Medicaid funds are neither allocated to the USDB nor are they spent according to a federal fiscal year. Instead, most of the federal funds received are paid as a reimbursement for actual expenses incurred by the USDB. The expenditure of those reimbursements can be spent at any time without regard to the federal fiscal year. In addition, there were no federal funds in the carry-forward balance that year. The school official appears to have been confused regarding this matter and indicated that much of the carry forward balance consisted of federal funds. To avoid making inaccurate statements in the future, the school's administration needs to employ a finance director who can effectively explain the school's finances to groups such as the State Legislature and the State Board.

The State Office could oversee the finances at USDB in the same way they manage the finances for Vocational Rehabilitation.

The State Office of Education Could Manage the USDB's Finances. As an alternative to hiring a new finance director, the State Board of Education should consider making an organizational change that would bring the USDB under the State Board's direction through the State Office of Education. The State Office of Education already manages the finances of the Office of Vocational Rehabilitation, an organization with the same type of relationship to the State Board as the USDB. The person acting as the finance officer for Vocational Rehabilitation is not directly supervised by the Executive Director of that agency; instead the finance officer answers to the Director of Finance in the State Office of Education. This relationship offers the Office of Vocational

Rehabilitation a team of strong financial managers who are also in close contact with the State Board of Education.

The State Board of Education should consider whether a similar relationship should exist between the State Office of Education and the Utah Schools for the Deaf and Blind (USDB). If the State Office were to assume responsibility for USDB finances, it could provide the USDB with a stronger financial manager and also help the State Board of Education provide better oversight of the school's finances.

USDB Requires Additional Outside Oversight

The State Board of Education is not providing adequate oversight of USDB.

Currently, the State Board of Education is not providing sufficient oversight of USDB affairs. Considering that the State Board is designated in statute as the USDB's governing body, we found that the State Board has surprisingly little involvement with the USDB. The State Board does not look at the USDB's budget in any detail; in fact, the State Board only reviews requests for new funding each year.

Reportedly, the State Board has delegated most of its oversight responsibilities to an advisory panel called the Institutional Council. The council does meet regularly to discuss USDB activities and review the school's expenditures. According to the statute, however, the Institutional Council is mainly an advisory panel that considers the educational needs of deaf and blind students. Council members are appointed because of their associations with the deaf and blind community. Most have a limited understanding of such matters as budgeting and financial operations. Council members told us that they feel ill equipped to oversee the school's finances. Further, members of the council report that the State Board has not been very responsive to their concerns.

Legislature should takes steps to ensure USDB receives adequate oversight.

We agree with members of the Institutional Council that they are not properly equipped to carry out the responsibilities of the State Board. The Legislature should either encourage the State Board to assume its legal mandate to govern the USDB or consider giving the USDB a new board that has the knowledge and authority to govern the USDB.

State Board of Education Could Provide Greater Oversight of USDB Affairs

The State Board of Education provides only limited oversight to the USDB. We found that the State Board does not examine the USDB's budget in sufficient detail. In fact, the State Board rarely reviews the USDB's annual budget, and instead looks only at the school's requests for new funding. The State Board's staff (the USOE) receives the USDB's budget in detail, but does not review the details in the budget. We were told by administrators at the USOE that the extent of their review of USDB finances is to periodically check to see that the budget was not overspent. In our opinion, many of the problems described in this report would not have been brought to the attention of state legislators if the State Board had been providing greater oversight of the USDB.

Past audits have questioned the level of independence given to the USDB by the State Board of Education.

Past Audits Called for Stronger Governance of the USDB. Unfortunately, the lack of governance by the State Board is not a new problem. Nine years ago the State Board's own internal auditor urged them to provide better oversight of the USDB. A 1994 internal audit by the State Office of Education states the following:

> In recent years the State Board and its staff have treated USDB much like an independent school district. There has been little review of program efficiency or effectiveness, agency direction has not been clearly established, and financial activities have not been regularly reviewed.

At that time the auditor recommended that a standing committee of the State Board be established to exclusively provide oversight to the USDB. Unfortunately, the State Board has not implemented the recommendation of its own auditor and has allowed the USDB to continue to operate without sufficient outside oversight.

Utah Code **Clearly Identifies the State Board as USDB's Governing Body.** The duty of the State Board to provide oversight of the USDB is clearly stated in state law. ***Utah Code*** 53A-25-104(1)(a) (for deaf school), and 53A-25-203(1)(a) (for blind school) states:

> The governance and control of the School for the Deaf [and School for the Blind] and the management of its property and its affairs is

vested in a board of trustees which consists of the members of the State Board of Education.

In our opinion, the State Board has not adequately fulfilled its responsibility to oversee and control the USDB's affairs. Instead, the State Board has delegated their responsibility to the Institutional Council.

Institutional Council's expertise is in deaf and blind education not governance.

Institutional Council Is Ill-suited to Oversee USDB Finances. The ***Utah Code*** allows an Institutional Council to act as an advisory committee to the State Board regarding the needs of deaf and blind students. According to ***Utah Code*** 53A-25-301(3)(b), council members are selected because of their "interest in and knowledge of the needs and education of those who are deaf or hard of hearing, blind or visually impaired, or dual sensory impaired." Because they understand the needs of deaf and blind students, the statute requires the council to advise the "board as to the needs of those who are deaf...or blind" [UCA 53A-25-301(2)].

The statute also gives authority to the State Board to delegate some of its duties or responsibilities to the Institutional Council, which the State Board has done. However, as valuable as their knowledge is with regard to the needs of deaf and blind students, we found that the council members are ill-suited to the task of overseeing the finances and budget of a $22 million agency. In our opinion, the members do not have the background or experience to be effective at overseeing the USDB's finances. Most are either former students or the parents of students and have little experience in matters of budgeting and governance.

Better Oversight Could Have Alleviated Fiscal Management Problems

Institutional Council earnestly tries to govern USDB, but they do not have the background and experience they need to be effective.

We believe that the budgeting problems discussed in Chapter II of this report and in the first part of this chapter could have been addressed without the Legislature's involvement if the USDB had a more effective governing board. The members of school's Institutional Council has done their best to carry out their responsibilities. However, the council has not been provided with sufficient information about the school's finances to address the problems. In addition, council members told us that even when they have raised concerns, the State Board has not been responsive. They told us that when they have written letters to the State Board or the USOE, they have rarely received a response.

Institutional Council Has Not Been Given Sufficient Information. One challenge the Institutional Council has faced is that they have not received sufficient information to address the problems facing the USDB. Several council members told us that after the Legislature decided to reduce the school's cash reserves, the USDB administration presented a budget reduction plan that included the elimination of six vacant positions. Even though they did not want to reduce the number of teachers, several council members told us that they approved the administration's plan because they were told there were no other options. Only after we suggested that other funds were available did members of the council realize that they could have covered the reduction in the cash surplus without reducing staff. The members of the council expressed concern that these other options had not been presented to them.

Better Oversight by the State Board Could Have Eliminated the Need for the Legislature's Involvement. The State Board and the USOE also had an opportunity to address the financial problems described in this and prior chapters but did not. Before the issues were presented to legislators, the problems with both the salary adjustment and the cash surplus had been raised with the State Board of Education and the State Office of Education (SOE). The problems were not dealt with at that level, however. Part of the problem was that neither the State Board or the SOE were fully informed about the USDB's financial situation. We believe that if better oversight had been provided by the State Board and the SOE, then these financial irregularities could have been addressed without the Legislature's involvement.

State Board should recommend ways to improve the outside oversight of USDB.

Unless the State Board can devote more time to overseeing the USDB, the Legislature should consider creating an alternative governance structure. Rather than acting as an advisory council, the Institutional Council could be created as a sort of school board for the USDB. This option would require changes in the makeup of that board. Another alternative would be to require a subcommittee of the State Board to act as the body responsible for overseeing policy and approving budgets at the USDB. We recommend that the State Board create a task force to study the governance of the USDB and recommend to the Legislature ways to improve the governance of the agency.

Performance Measures Are Not Being Used

The USDB already has the makings of what could become a useful tool for evaluating the school's performance. Each year an individual education program (IEP) is prepared for each student. However, the USDB administration does not use the IEPs to evaluate the extent to which the school is accomplishing its goals. If the school were to tabulate the progress made toward accomplishing each education plan, school administrators and the State Board could have an effective measure of the effectiveness of the school's instruction.

IEP could be used to monitor the school's effectiveness in accomplishing its educational goals.

Furthermore, USDB officials could also use the individual education programs to make decisions regarding how to allocate resources. We found little correlation between the school's education goals as described in the IEPs and the way the school chooses to allocate its resources. Certain classrooms do not have sufficient resources in terms of teachers and equipment, considering the number of students and the student education plans that have been agreed to by the school.

No Broad Measures of Program Effectiveness

There is no question that the USDB provides valuable service to the deaf and blind community, but we found that the school is not doing enough to measure the effectiveness of the services they provide. The lack of performance measures was mentioned as a problem in a 1994 internal audit, and still there is no attempt being made to measure the effectiveness of the school's instructional programs.

The Institutional Council has asked for information describing the success of USDB's various programs.

Members of the Institutional Council have not been able to evaluate the overall performance of the USDB. The council is not being appraised of the progress made by the USDB in completing the students' IEP goals. Although the council has asked for information describing the performance of various regions and school districts, they have not been provided this information.

School officials argue that there are so many influences that affect the classroom environment, it is impossible to make an objective analysis of performance. We disagree. If the goals expressed in a student's IEP are meaningful, there must be some way to identify whether or not the goals have been accomplished and to report how many students in aggregate have been able to accomplished their goals.

Achievement Rate of IEP Goals must Be Tracked. Each year a committee of USDB staff, teachers, and parents prepares an Individual Education Program (IEP) for each student. Normally, the committee reviews the student's educational progress during the past year and prepares a new education plan that builds on the prior year's accomplishments. See Appendix B for an example of a student IEP.

We found that the USDB does not compile reports showing the school's success in accomplishing the goals described in individual IEPs. The Institutional Council and the State Board could use this information to monitor the success of the USDB's individual regions and the various instructional programs. Clearly, other subjective factors, such as the level of parental support and student attendance, could also be considered along side the IEP completion rates. In our view, the USDB is missing an opportunity to evaluate the effectiveness of its instruction by not using the IEP as a basic measure of school performance.

Lack of standards at USDB sometimes results in an inequitable distribution of resources.

Allocation of Resources Not Based on an Objective Measure of the Need. We found that there is some inequity in how staff resources and equipment are allocated to the different regions and to individual classes. The problem, we believe, is that there are no objective measures of the workload that teachers are required to bear.

For example, we found that some classes have three or four students who are all roughly at the same educational level. At the same time, other classes have eight or ten students who are at different educational levels. Some students who are at a fourth grade level are in the same classroom as other students who are at a fifth or sixth grade level. Some students come from homes where English is not spoken, and some students have multiple handicaps. Although the teachers of such classrooms may have a very difficult time meeting all the requirements in the individual student's IEP, this added workload is not given formal consideration when it comes to allocating resources.

When a classroom teacher appears to be especially overburdened, the administration may provide extra resources such as an additional aide or interpreter. The administration prefers to make such decisions on an informal, intuitive basis. Because no formal workload measures have been developed, there is no way to demonstrate that resources are allocated in a way to maximize the possibility of accomplishing individual IEPs. As a result, some instructors have too many students with special needs and have a very difficult time providing the level of instruction envisioned by the IEP. In contrast, other instructors have a relatively light workload and are able to provide the level of instruction envisioned by the IEP. We recommend that the USDB consider the level of commitment made in its IEPs when making decisions regarding the allocation of school resources.

Recommendations

1. We recommend that the USDB develop a spending plan and use this to govern their excess funds.

2. We recommend that when a new finance director is selected the selection committee should consider a person with the experience, education, and training needed to navigate the complex finances of the USDB.

3. We recommend that performance measures be instituted to track the progress of USDB students.

4. We recommend that State Board of Education provide more oversight, or the Legislature develop a body that can provide sufficient oversight.

5. We recommend that the Legislature consider placing fiscal management under the USOE.

6. We recommend that the USDB utilize the IEPs when making decisions regarding the allocation of school resources.

Appendix A

USDB Report to Joint Public Education Appropriations Committee

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Appendix B

Sample Individual Education Program

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Agency Response

A Response to
A Performance Audit
Of the
Utah Schools for the Deaf and the Blind

Response Prepared By:

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January 27, 2004

Introduction

Concerns and issues raised in the Performance Audit of the Utah Schools for the Deaf and the Blind (USDB) have caused careful and deliberate review of the processes and procedures related to funding, budget, operations, and determination of student achievement related to the work of the staff at the Utah Schools for the Deaf and the Blind. Although there is clear need for major changes in some budget procedures, the acknowledgement from the Legislative Auditor General's office that neither mismanagement nor malfeasance have played any role in these concerns is welcome news. Indeed, it appears that, if anything, the concerns identified in the audit are resulting from ultraconservative actions related to budget and the sizable budget reserves that followed from those actions. Nonetheless, as this year's money should serve this year's children, we share the concerns identified by the audit and we support the recommendations listed therein.

General Discussion

Funds that are called surplus funds in the audit are understood to be carry forward monies at USDB. They are used to provide a sure base of known funding for the subsequent year, given that some funds can fluctuate in revenue year to year, such as the Land Grant Trust Funds which can fluctuate based on stock market gains or losses, where some of these funds are invested. Admittedly, USDB administration has inappropriately referred to these carry forward funds as "restricted" funds. Rather, these are "committed" funds to the next year's budget and are not restricted in purpose. A clear understanding of this distinction is now well known. Further, the Utah State Office of Education (USOE) will require that no more than 5 percent of all funds, including federal reimbursements, shall be carried forward from any one year to the next.

Revenue that is earned in one fiscal year at the USDB, due to reimbursements coming from federal programs (IDEA and Medicaid), has been annually set aside as "new revenue" for the following year, rather than reimbursement for expenditures made during the current year. This practice has followed the belief at USDB that planning and budgeting is more secure and includes better estimates of revenues at the beginning of a new fiscal year when the money is virtually assured. Leadership has, therefore, delayed claiming or budgeting reimbursement money anticipating its use in the following year's budget. While a conservative move as it relates to sure budgeting, it falls short of ensuring that "this year's money serves this year's children." It is clear (and a regular feature of many district budgets) that reasonable estimates of reimbursement allocations can be made and included in the budget each year. It is now agreed that, insofar as possible, reimbursements shall be recaptured quarterly and be used in the year for which services were provided, with estimates of reimbursement amounts projected into each year's budget.

Monthly summaries of expenditures have been sent from the USDB to the USOE on a regular basis. However, because of misunderstandings of previous audit recommendations due to staff turnover and forgotten practice, those monthly USDB expenditures have not been included in the Utah State Board of Education (USBE) agenda. That will be remedied immediately, beginning in the February 2004 USBE meeting, during which time the USBE will be able to review expenditures at USDB as part of their regular consent calendar.

The entire state of Utah is experiencing major changes in methods of accountability. Student achievement results are critical and are being analyzed and understood in new and important ways. Measuring the direct impact of teachers, instructional methods, interventions, and other chief aspects of schooling is new methodology for public schools across the nation as previous work has focused on processes rather than outcomes.

The audit noted the need for USDB to measure its results with students being served through their programs. This is an important and valued recommendation. However, it will take time to create a fair and effective method to do this, as it is a matter of appropriately defining and correlating results in the traditional setting, adjusting for students in the Special Education setting, and then extrapolating those for students who have significant challenges of deafness, blindness, or a combination of deaf and blind challenges. Nonetheless, it is the goal of the USDB and the USOE to create such a measurement system wherein we can gauge and understand the effects of various teaching, instructional, curricular, and intervention strategies as they relate to students throughout the state of Utah.

In the meantime, it is important to note that by existing measures as well as expert review, USDB has been found to be an effective school for students who meet acceptance criteria. Fiscal audits in the past years have cited no misuse or misappropriation of funds. As it relates to student success, approximately 90 percent of students who have been served by USDB are able to attend their home school and find success, even with daunting deaf and/or blind challenges. And finally, the school has full accreditation from the Council of Educators of the American Schools for the Deaf and the National Accreditation Council for Agencies Serving the Blind and Visually Impaired. Clearly the staff of the school is working hard to help each child succeed.

Actions Tied to Recommendations

The following schedule of actions have been thoroughly discussed and approved by leadership at the USOE and USDB, including the Institutional Council at the USDB. Upon receipt of the official legislative audit, these actions will be put into place so as to remedy concerns this year, for this year’s children, and position USDB to better meet the needs of future students.

The actions listed herein are chiefly the responsibility of Superintendent Lee Robinson with monitoring by Dr. Patti Harrington, Associate Superintendent over Student Achievement and School Success at the USOE. Budget matters will receive the additional review of Patrick Ogden, Associate Superintendent over Business Operations and Accounting at the USOE as well as regular review by the USBE and the Institutional Council for USDB.

Item	Date Completed	Person Responsible
In consultation with the Institutional Council and the USDB staff, the Superintendent will develop a budget for the 2003-2004 year by February 15, 2004 and each year thereafter by May 15th (for the upcoming year) for approval by the USOE staff and review by the USBE in its regularly scheduled June meeting. Budget shall include salaries and benefits as approved by the USOE and include use of reimbursables in the year for which services are provided.	2003-2004 budget submitted by February 15, 2004 Submit budget by May 15 Board review in June	Lee Robinson
The USOE shall immediately assign personnel so as to create closer working relationships between USOE and USDB accounting. Upon the retirement of USDB's financial director, a suitable and well-trained replacement will be hired and housed at the USOE, with direct supervision from a senior USOE budget officer.	February 15, 2004	Lee Robinson
Salaries and benefits for USDB employees shall be calculated and submitted to USOE for review of calculations and approval prior to the convening of the Utah Legislature each year. Such salaries and benefits shall be based on a single figure of weighted average salaries of Utah's districts for the year in which the USDB salaries and benefits are calculated (from previous spring/fall negotiations).	December each year	Lee Robinson
Excess funds as of 1/22/04 shall be spent down, by plan, to a no more than a 5 percent carryover figure no later than June 2006.	June 2006	Lee Robinson
Roles of the Institutional Council, the USBE, the USDB Superintendent, and the USOE shall be defined, by protocol, to ensure appropriate leadership, accountability and support for the USDB.	February 15, 2004	Patti Harrington
The USBE shall review USDB expenditures monthly, noted in separate USDB monthly report.	Monthly	Patti Harrington

The Superintendent shall continue to be annually evaluated by the USBE. Such evaluation shall include recommendations by the Institutional Council as well as budget management following recommendations of the legislative audit.	June	Patti Harrington
Land grant trust funds shall be used regularly for the purposes intended with at least 80 percent of the actual amount accrued during the prior year being budgeted and spent during the current year.	Budgeted by May 15th	Lee Robinson
Working with the USOE Special Education Department, the USDB shall set up an appropriate education accountability plan for its services that includes measurement of student gains and abilities and individual education plan (IEP) goals. This work shall coincide and support work to fully implement the Utah Performance Assessment System for Students (U-PASS) and No Child Left Behind (NCLB), as applicable to USDB services.	For implementation in July 2005	Lee Robinson Karl Wilson
The Institutional Council shall review the services of the USDB and the patterns of enrollment and funding for USDB students throughout the state, making recommendations to the USOE and the USDB for improved coordination and services.	June 2005	Lee Robinson Patti Harrington

Budget requirements

1. Budget must be planned to include no more than a 5 percent carryover of any one fund, including reimbursed money from federal programs.
2. Federal reimbursement funds (IDEA and Medicaid) shall be recovered quarterly during the year.
3. Budgets shall include salaries and benefits. Salaries shall be computed using the weighted average of the annual salary increases paid by Utah's public school districts for the year previous to the payment of salary. Benefit packages must be comparable to those paid to other state employees.
4. Budgets must reflect chief goals of the USDB as approved by the Institutional Council and include student performance and achievement.