

February 14, 1992
ILR 92-C

Representative Haynes R. Fuller
House of Representatives
Utah State Capitol
Salt Lake City, Utah 84114

Subject: **Ogden School District Survey**

Dear Representative Fuller:

As you requested, we have completed a survey of the Ogden School District. In recent years, the district has been less conservative, fiscally, as evidenced by the declining fund balances in its basic program maintenance and operation (M & O) budget. Between June 30, 1988 and June 30, 1991, the fund balance steadily declined from \$891,108 to \$196,166. In addition, some oversights led to overstating anticipated revenue and understating expected expenditures. As a result, for two years the district has faced year-end deficits. The district avoided a 1990-91 deficit only by transferring \$750,000 of expenditures to other funds and programs at year-end. It avoided another potential deficit in 1991-92 by making \$1 million of mid-year cuts and transfers. However, the district appears to be taking a more conservative approach now. As noted, it has acted to avoid a potential deficit in the current year and is now monitoring its budget status monthly, rather than two or three times a year. It has also revised its fiscal policies. We have two other concerns from our review, but considering the remedial action described above, we have concluded no further audit work is warranted.

The detailed information which you requested is provided under the thirteen respective questions that were submitted to us. Two concerns are discussed in our responses to Questions 7 and 12. To cover its 1990-91 shortfall of \$750,000, the district made year-end transfers. One of these, for \$254,604, lacks adequate documentation to assure its appropriateness (see Question 7). Also, we are concerned that a federal grant may be supplanting part of a district staff specialist's salary, which is forbidden under terms of the grant (see Question 12).

1. Can administrators be paid with Chapter I funds?

Chapter I (formerly Title I) funds are federal educationally disadvantaged funds. Although they cannot be used for indirect administrators' salaries, such as those in the superintendent's office or business office, they can be used to pay all or part of the salary and fringe benefits of the district administrator who administers the program, in proportion to the time spent on the program. Also, the funds can be used to pay the salaries and fringe benefits of Chapter I

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specialists or lead teachers.

2. Track reserves and carry-over balances for 5-8 years.

It was Ogden District's basic program M & O fund that faced deficits in 1990-91 and 1991-92. Figure I shows the June 30 unappropriated balances in this fund for the years shown.

Figure I

Utah State Office of Education (USOE) officials stated that the law allows districts to have an unappropriated balance as high as 5 percent of their basic program. Ogden's June 30, 1991 balance was about 1 percent. Although the amount of fund balance to be carried is a policy decision for the local board, it is obvious that the June 30, 1991 fund balance was less than one-fourth of the amount carried three and four years earlier, and represents only one-fourth of the 1990-91 shortfall of \$750,000. (See Question 7 regarding shortfall.)

3. Track state funding from equalization over 5 years.

The equalized program for instruction is the basic M & O program. Local tax levies for M & O and state equalization payments are the significant contributors to this program. Figure II shows revenues from these two sources and their grand total. The amounts shown include both voted and board leeway amounts at both the state and local level since they are part of the Uniform School Fund and part of the amount for equalization.

Figure II

**4. Are Ogden's property tax collections down?
Track 10-year history by percentage change and per pupil.**

The requested information is provided in Figure III. A school district can levy several taxes, one of which is the minimum basic tax rate collected to help fund the state equalization payments shown in Question 3 above. Thus Ogden District's net tax resources are exclusive of equalization taxes, as shown in the lower section of Figure III.

Figure III

Except for the equalization portion (basic M & O program), Ogden District's property tax collections are not down. Since the district receives its equalization funding from the equalization formula and not from the equalization tax collected, this would have no effect on the district. District officials explained that their 1990-91 basic program M & O property tax collections were down \$368,000, compared to anticipated collections, which is correct. They said they erroneously included that amount of prior year tax collections twice in their revenue estimates.

5. Is 1990-91 the first year that the health insurance cost for retirees has not been provided (budgeted) for?

Technically, the answer to this question is no. Although the insurance has been paid each year, it was omitted from the budget for several years. 1990-91 was the first year that the failure to budget for retiree health insurance came to the attention of the Ogden School District.

A few years ago, the district began to use a new USOE computer report which allocated fringe benefit costs to the same activity accounts to which salaries were charged. Because of its convenience, the district began to budget health insurance costs from this computer fringe benefit information. The oversight that occurred was that the computer program accounted only for the benefit costs of employees who were generating a salary, not retirees; thus, health insurance costs of retirees were not included. District staff said that prior to 1990-91 this oversight was not noticed because the unbudgeted item was absorbed by the surplus at the end of each fiscal year. They said by 1990-1991, the early retirement law of 1987 and large increases in health insurance premiums had exacerbated the situation and the unbudgeted costs reached \$230,000. Had the district been monitoring its budget throughout the year, much of this shortage could have been

detected and budget adjustments could have been made before the end of the fiscal year.

6. Are any of the "other losses" significant?

District officials said that the "other losses" referred to in Superintendent West's October 15, 1991 letter to Ann Moulton related to the district's oversight in not establishing a fund or allowance to pay for teaching overtime or increased productivity. Some of the schools in the Ogden School District have opted to employ fewer teachers but have them work more by teaching additional students and classes. Accordingly, their regular salary is supplemented out of this allowance. Although the district calculated an amount for this purpose, it said the amount was inadvertently **subtracted** from the 1990-91 budget instead of adding it to the budget. District officials were able to document \$140,000 of "other losses".

7. Did Ogden close with a \$1 million shortfall?

Except for year-end adjustments, Ogden District would have ended 1990-91 with a shortfall of approximately \$750,000 in its basic program M & O budget. The \$750,000 shortfall would have been 3.3 percent of its planned \$23.0 million basic program M & O budget. The adjustments involved transferring some charges to other (non-basic program M & O) district funds and programs. We have a concern with one of these transfers.

The district transferred \$254,604 of physical plant maintenance expenses from its basic program M & O to the district's regular capital levy (not bond proceeds). USOE officials stated that, properly documented, such charges as the complete painting of a building as discussed in Question 8 below, might be appropriate, particularly if planned and budgeted at the beginning of the year. However, since district time sheets and accounting records do not designate the projects maintenance employees work on, district officials estimated the amount to be transferred. Because the estimated amount of \$254,604 has no documentable basis, it is impossible to determine the appropriateness of the transfer.

To avoid an estimated \$1 million deficit in 1991-92 (the current year), on December 10, 1991 the Ogden District made adjustments, including reductions and transfers, to its basic program M & O budget. The changes were intended to avoid repeating the shortfall of 1990-91, as well as to cover other shortages discovered in the current year. Also, district officials said they now conduct detailed monthly reviews of the budget to avoid unexpected shortfalls.

8. Is any of Ogden's bond revenue being used to pay M & O expenses?

In a September 13, 1988 special bond election, the Ogden School Board was authorized to issue \$10 million of bonds "... for the purpose of adding to, improving and remodeling existing buildings and school houses and supplying the same with furniture and necessary apparatus, for purchasing school busses, for improving school property under the charge of the Board of Education...."

Of the \$1.7 million encumbrances and expenditures in 1990-91, \$1.6 million was classified in functions and objects of expenditure clearly consistent with the above bond resolution. We tested the other \$0.1 million of charges to bond proceeds for 1990-91 for appropriateness of charges. If complete exterior and interior painting of entire school buildings and the complete trimming of all shrubs and trees on the grounds of school buildings, both long-neglected, can be considered "improving school property," then the remaining \$0.1 million was spent for

improvements as well. Such classification is not without precedent. The state Division of Facilities and Construction has, on occasion, so classified extensive painting on certain state buildings.

9. Superintendent West said "Unexpected expenses" were partly responsible for shortfall. What are these unexpected expenses?

Superintendent West was quoted in the October 30, 1991 Standard Examiner as saying that "unexpected expenses" and less than expected revenues had caused the budgetary problems in 1990-91. District officials said that funds for a group of temporary employees who monitor the playgrounds and perform other miscellaneous tasks were inadvertently omitted from the budget. These individuals are paid minimum wage and work on a seasonal or temporary basis. They had not been classified on the accounting system because of their temporary status and their wages were inadvertently not forecast into the 1990-91 budget. Officials said that the omitted funds amounted to approximately \$53,000, and that these employees have since been classified so they are accounted for in the current and future budgets.

10. Is the early retirement window still costing Ogden District money?

The USOE stopped deducting "window" retirement funds from its funding of districts' retirement at the end of 1990-91. However, as discussed in Question 5 above, districts pay for health insurance; thus, the district is still paying health insurance for "window" retirees.

11. What are Ogden's current tax levies and how do they compare with the state?

Figure IV compares Ogden District's tax levies with the average levies of the state's forty school districts.

Figure IV

As can be seen in the bottom line of the above table, Ogden District's total levy is nearly identical with the average of all districts.

12. Are there school board policies on spending and accountability? If so, are they followed and who oversees them?

Although the State Board of Education has issued policies on school district spending and accountability, the primary guide is the «3»Utah Code«1». Other guides are the USOE's accounting handbook (which includes federal guidelines on accountability of federal funds) and local board policies. To ensure that district personnel understand the various laws and policies, the USOE holds annual seminars to explain law changes. As part of its on-going updating of policies, the Ogden District adopted extensive revisions to its financial policies on September 25, 1991.

School district financial operations receive various reviews. The USOE receives and reviews the districts' annual budget plans (F-16 Report) and final "as spent" budget (F-4 Report) to assure that the basic program M & O meets state requirements for state equalization funding. The USOE also conducts audits in the districts of various education programs with some review of funds use. In addition, the districts' independent CPA firms annually audit the districts' expenditures for appropriateness and legality. Copies of the firms' annual audits are submitted to both the USOE and the State Auditor. Both offices review the audits, the State Auditor reviewing for adherence to audit standards.

We have a concern regarding a minor problem in accountability. There may be supplanting of part of a district staff specialist's salary. Since supplanting is forbidden under terms of the grant, and an in-depth knowledge of grant requirements is needed to make a final determination, we have referred the matter to the Eisenhower Fund specialist at the State Office of Education for further investigation and action.

13. Compare Ogden District's teacher and administrator salary increases for several recent years.

As you requested, we compared salary increases. We did not review total compensation or benefits, which issues surfaced after we had finished our audit work. Although teacher and classified salary increases are negotiated annually with the board, administrator increases are based on a formula. In accordance with a September 10, 1984 Ogden Board resolution, administrator salary increases are adjusted upward by the average percentage increase of the highest master's degree lane for teachers in nine specified Wasatch Front districts.

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The minutes of its June 12, 1991 meeting show that the board approved negotiated agreements and changes for "Classified Employees, Teachers and Nurses, and Administrators" and included an understanding that administrator salary increases would be calculated using information from less than nine districts if all had not settled by November 1, 1991.

Figure V shows salary increases for teachers, administrators, and classified staff. Where available, we included data from another organization as well as that provided by the district.

Figure V

As shown in Figure V, it appears that since 1985-86 the **percentage increase** in administrator salaries has exceeded that of teachers in total by 0.9 of one percent.

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We hope this letter provides you with the information you need on the Ogden School District.
If you have any questions, please let us know.

Sincerely

Wayne L. Welsh
Auditor General

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