

**OFFICE OF EDUCATION**  
**Minimum School Program**

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Findings and Recommendations Related to  
Statutory Distributions for Fiscal Year 2012 and  
Projections for Fiscal Year 2014

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Report No. 12-OOE-7

STATE OF UTAH  
**OFFICE OF THE STATE AUDITOR**



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January 16, 2013

To the Utah State Board of Education, Audit Committee  
and  
Martell Menlove, Ph.D, State Superintendent of Public Instruction  
Utah State Office of Education

We have performed a review of the application of Minimum School Program (MSP) statutory distribution formulas and allocations to school districts and charter schools. The procedures described below were applied to certain aspects of compliance for the MSP FY12 Final Report and the MSP FY14 Legislative Budget Projections. We performed the following procedures at the Utah State Office of Education for a sample of school districts and charter schools:

1. We reviewed the MSP FY12 Final Report for ten programs, including Grades K- 12, Voted and Board Leeway, Special Education, Concurrent Enrollment, Critical Languages and Dual Immersion, Educator Salary Adjustments, Beverly Taylor Sorenson Elementary Arts, Early Intervention, and Pilot Assessment, to ensure that the allocations to school districts and charter schools for each selected program were made in compliance with the related statute and do not exceed amounts allowable by law.
2. We reviewed the MSP FY14 Legislative Budget Projections for five programs including Grades K-12, Voted and Board Leeway, Special Education, Career and Technical Education, and Class Size Reduction to ensure that the projections of the allocations to school districts and charter schools for each selected program were made in compliance with the related statute and were reasonable.

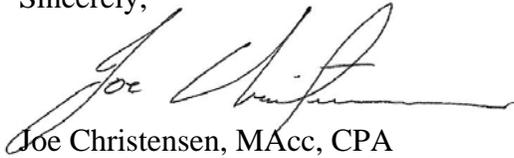
Our procedures were more limited than would be necessary to express an audit opinion on compliance. Accordingly, we do not express an opinion. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

This report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the Utah State Office of Education during the course of the review, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Christensen". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joe Christensen, MAcc, CPA

Audit Director

Telephone: 801-538-1359

Email: [joechristensen@utah.gov](mailto:joechristensen@utah.gov)

cc: Bruce Williams, Associate Superintendent for Business Services  
David Roberts, School Finance Director  
Natalie Grange, Internal Audit Director  
Michael Mower, Deputy Chief of Staff, Governor's Office  
Jonathan Ball, Director, Office of Legislative Fiscal Analyst

**OFFICE OF EDUCATION**  
MINIMUM SCHOOL PROGRAM

STATUTORY DISTRIBUTIONS FOR FISCAL YEAR 2012 AND  
PROJECTIONS FOR FISCAL YEAR 2014

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**OFFICE OF EDUCATION**  
**MINIMUM SCHOOL PROGRAM**

**FINDINGS AND RECOMMENDATIONS RELATED TO  
STATUTORY DISTRIBUTIONS FOR FISCAL YEAR 2012 and  
PROJECTIONS FOR FISCAL YEAR 2014**

**1. NONCOMPLIANCE OF ALLOCATION TO CHARTER SCHOOLS**

The Utah State Office of Education (USOE) did not allocate funds to charter schools for the Grades K-12 Program in compliance with *Utah Code* for either the fiscal year 2012 actual final allocation or the fiscal year 2014 budget projection. According to *Utah Code* 53A-1a-513(3)a and 53A-17a-106(3), funding should be allocated to charter schools using the same method as school districts, i.e., based on the prior year average daily membership (ADM) plus a growth factor based on the increase in October headcount in the current year as compared to the prior year. Instead of using the required method, the USOE allocated funds to charter schools based on the greater of prior year ADM (without a growth factor) or the current year October headcount. The USOE initially used this alternate method to allocate funds because when charter schools were originally formed there was not enough prior year data to calculate the allocation in accordance with the law. Now that additional information is available for charter schools, the USOE has been evaluating the impact of changing the allocation method. We recalculated the fiscal year 2012 final allocation for the Grades K-12 Program funding for four charter schools and determined that the schools were allocated \$188,159 or 4.1% more than if the allocation had been done in accordance with the law. The total amount allocated to charter schools for the Grades K-12 Program in fiscal year 2012 was \$120,843,406; therefore, we estimated that the total amount of excess allocation to all charter schools for the Grades K-12 Program in fiscal year 2012 was \$4,991,097. Allocating to charter schools in compliance with the law would also result in a lower budget projection for fiscal year 2014.

**Recommendation:**

**We recommend that the USOE allocate the funding to charter schools in accordance with the law. We also recommend that the USOE make recommendations to the Legislature to change the law if the USOE determines that an alternative funding formula is necessary or desired.**

**USOE's Response:**

*The USOE agrees with this finding. As part of a Utah State Office of Education review of the Minimum School Program conducted in August of 2012, the issue of Charter Schools being funded Weighted Pupil Units (WPU) in the kindergarten and K-12 programs at the higher of prior year ADM or October student count was identified. In this process, we determined that the methodology currently used to fund Charter Schools is not consistent with State statute which requires all public schools to be funded using a funding methodology of prior year ADM plus growth.*

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*Meetings have been held with representatives of Charter Schools to discuss how Charter School funding could be changed to prior year ADM plus growth funding without having a major financial impact on these schools. Additionally, the State Board of Education is currently in the process of revising Board Rule R277-419 concerning pupil accounting. It is the intent of the Board of Education to address the Charter School funding issue identified by the State Auditors as part of the revision of R277-419 and bring the funding methodology for funding Charter Schools into compliance with State statute.*

2. **BUDGET PROJECTION NOT BASED ON PRECEDING YEAR'S APPROPRIATION**

The USOE did not calculate the fiscal year 2014 budget projection for the Career and Technical Education (CTE) Add-on Program based on the actual CTE Add-on appropriation received for State fiscal year 2013.

Each year, CTE personnel at the USOE allocate the amount appropriated for the CTE Add-on Program to school districts and charter schools which qualify to receive the funds. For ease of administration, CTE personnel at the USOE held out the following amounts prior to allocating the CTE Add-on appropriation received for State fiscal year 2013: 1) \$151,700 for Utah Futures, and 2) \$125,152 to mitigate the impact of any adjustments to the CTE allocation that might occur during the fiscal year (CTE personnel at the USOE released these held funds to the school districts and charter schools as the school year progressed). Thus, the actual amount *allocated* to the school districts/charter schools was a total of \$276,852 less than the amount *appropriated*.

School Finance personnel at the USOE used the *allocation* prepared by CTE personnel for State fiscal year 2013 as the basis for calculating the State fiscal year 2014 budget projection for the CTE Add-on Program without realizing that the amount *allocated* to school districts and charter schools for State fiscal year 2013 was \$276,852 less than the amount *appropriated* for the year. Because the USOE also applied a 2.2% enrollment growth factor when calculating the CTE Add-on Program budget projection for State fiscal year 2014, the budget projection was understated by a total of \$282,943.

**Recommendation:**

**We recommend that the USOE prepare the budget request for the Career and Technical Education Add-on Program based on the actual amount appropriated for the Career and Technical Education Add-on Program in the preceding fiscal year.**

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*USOE's Response:*

*The USOE agrees with this finding. School Finance and Career, Technical and Adult Education personnel will ensure that the amounts included in the allocation sheet for budget projection purposes is at least equal to the amount appropriated in the previous year.*

*The USOE would like to also point out that the calculations used in the budgets are preliminary and by the mid-year update in November of each year all funds appropriated are appropriately allocated to individual LEAs and programs and distributed according to code.*

3. **INADEQUATE GUIDANCE FOR ALLOCATION AND UNSUPPORTED AMOUNT USED IN CALCULATION**

The USOE does not have formal rules for governing the allocation of funds for the Self-Contained Program, nor is this allocation governed by Utah law. Currently, the USOE allocates these funds based on prior year ADM factors; however, one of the four charter schools we tested was a newer school and an ADM factor was not available to use in the calculation, so the USOE estimated an ADM. However, the USOE was unable to provide us any support for how this ADM was estimated or why it was determined reasonable; therefore, we were unable to assure that the allocation of Self-Contained Program funds to this school was appropriate. Without proper guidance or a reasonable methodology for allocating these funds, schools may be over or underfunded.

**Recommendation:**

**We recommend that the USOE write and adopt a rule to govern how to allocate funds for the Self-Contained Program and include instructions on how to handle charter schools with no established history.**

*USOE's Response:*

*The USOE agrees with this finding. There is no Code or State Board Rule governing the allocation of funds to LEAs for the Self-Contained Program. School Finance and Special Education will begin work to develop a rule.*

*In the case of the estimate, the standard practice in School Finance is to default to an ADM of 1 when no prior year ADM exists for special education self-contained. In this case, an ADM of 2 was listed for one LEA with no explanation as to the deviation from the standard 1. This results in an overpayment to the LEA of one self-contained WPU, which is \$2,816.*

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4. **INCONSISTENCY BETWEEN DATA USED AND SOURCE DOCUMENTS**

The USOE relies on numerous subcalculations to project the budget for the Voted and Board Leeways. During our review of the subcalculation used to estimate fiscal year 2014 tax rates and tax increments for redevelopment agencies, we noted several estimates that were inconsistent with the source data. Based on our review, we do not believe that these inconsistencies alone would cause a significant miscalculation, but we do feel that additional, similar errors could lead to a significant miscalculation and an inaccurate estimate of future-year funding needs. These errors are a result of a misunderstanding of the source data being used, the complicated manner used to compile the estimated tax increment amounts, and a lack of documentation as to what source was used.

**Recommendation:**

**We recommend that the USOE ensure they understand the data being used in their calculation and document their data source so it can be referenced again or updated as necessary.**

**USOE's Response:**

*The USOE agrees with this finding. School Finance personnel did not use the most current valuation factor in the redevelopment agency factor calculation. The internal control process, including verifying source data used in all calculations, is being developed as part of the school finance and internal audit MSP review process.*

*The USOE Internal Audit Department began a two-part review of the State fiscal year 2014 budget projection in September 2012. The first part of this review was designed to validate the calculation of the State fiscal year 2014 budget. This was completed in early November 2012. The second part of this review was designed to review the process and procedures for calculating the State fiscal year 2014 budget for the above the line items. Although this part of the review is not complete as of the date of this report, the Internal Audit Department noted the majority of the same issues. This review process was designed to detect material noncompliance, verify source data and calculations, and resolve issues for future budgeting projections and with the MSP distribution process.*