Mary Taylor, CPA
Auditor of State

MINFORD LOCAL SCHOOL DISTRICT
PERFORMANCE AUDIT

APRIL 22, 2008

Mary Taylor, CPA
Auditor of State

To the Residents and Board of Education of the Minford Local School District:

On April 27, 2007, the Minford Local School District (MLSD or the District) was placed in fiscal caution because of the possibility of ending the 2007 fiscal year in a deficit, as well as the potential for deficits in future years. Pursuant to ORC §3316.031 and ORC §3316.042, a performance audit was initiated in MLSD. The five functional areas assessed during the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations which support its mission of educating children, and because improvements in these areas can assist in eliminating the conditions which brought about the declaration of fiscal caution.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of MLSD's financial situation and a framework for its on-going financial recovery. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to assess overall operations and develop other alternatives independent of the performance audit. During the course of the performance audit, MLSD implemented a fiscal caution proposal that decreased expenditures in several areas.

An executive summary has been prepared which includes the project history; a district overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, and financial implications. This report has been provided to MLSD, and its contents discussed with the appropriate officials and District management. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at http://www.auditor.state.oh.us/ by choosing the "Audit Search" option.

Sincerely,

Mary Taylor

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Auditor of State

April 22, 2008

EXECUTIVE SUMMARY

Executive Summary

Project History

On April 27, 2007, the Ohio Department of Education (ODE) declared the Minford Local School District (MLSD or the District) to be in a state of fiscal caution, pursuant to Ohio Revised Code (ORC) § 3316.031 and in accordance with State guidelines. MLSD was required to submit a fiscal caution proposal that addressed the potential current and future year deficits by June 27, 2007.

The declaration was based on an ODE financial analysis, which showed potential deficits in fiscal year (FY) 2006-07 and FY 2007-08 of about $560,000 and $1.4 million, respectively. According to the fiscal caution guidelines developed by ODE, and in conjunction with the Office of Auditor of State (AOS), a district may be placed in fiscal caution by the Superintendent of Public Instruction when there is a potential current year deficit and no acceptable plan in place to address it.

MLSD's May 2007 updated five-year forecast showed a small deficit in FY2006-07, but positive fund balances beginning in FY 2007-08 that grow to $2.4 million by FY 2010-11. This updated forecast included the reductions proposed in the subsequent fiscal caution proposal. The methodology and supporting documentation behind the District's May 2007 five-year forecast was assessed as part of this performance audit (see **financial systems**). On July 11, 2007, ODE accepted the District's fiscal caution proposal and requested that it submit an updated five-year forecast based on full implementation of the fiscal caution proposal.

In July, 2007, pursuant to ORC § 3316.031 and 3316.042, AOS initiated a performance audit of MLSD. Based on a review of District information and discussions with administrators, the following five functional areas were included in the performance audit:

- Financial Systems;
- Human Resources;
- Facilities;
- Transportation; and
- Food Service.

Audit work was concluded in October, 2007. The goal of the performance audit process was to assist MLSD administrators and the Board identify cost saving opportunities and improve management practices. The ensuing recommendations comprise options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition. The

AOS revised forecast presented in **financial systems** indicates that if MLSD fully implements the performance audit recommendations, including those subject to negotiations, the District could operate with a positive fund balance through the end of the forecast period.

District Overview

MLSD is located in Scioto County and encompasses about 80 square miles. ODE categorizes the District as a rural district with low median incomes and higher poverty rates. The District operates under an elected Board consisting of five members. In FY 2006-07, the District provided educational services to about 1,600 preschool through grade twelve students. MLSD has two new school building complexes and recently borrowed $2.3 million to renovate and expand its athletic and service facilities.

For FY 2005-06, ODE reported that the District received approximately 21.9 percent of its revenues from local taxes, 69.2 percent from the State, and 8.9 percent from federal grants and other sources. ODE also reported the District's expenditures per pupil were $8,424 per student.

In FY 2006-07, the District employed approximately 168 full-time equivalent (FTE) staff consisting of 8 FTE administrators, 106 FTE educational personnel, 4 FTE other professional/technical personnel, 10 FTE office/clerical staff, and 40 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2006-07 was approximately 17.5:1. Also in FY 2006-07, the District met 22 of 30 academic performance indicators established by ODE and was categorized as an effective district.

As part of its fiscal caution proposal, the District has implemented staffing reductions for FY 2007-08 of 1 FTE administrator, 1 FTE librarian, 1 FTE vocational teacher, 7 FTE regular teachers, and 1 FTE special education teacher. These reductions were considered in the staffing analysis conducted in **human resources**.

Objectives, Scope and Methodology

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. The audit assessed the key operations of the District in the areas of financial systems, human resources, facilities, transportation, and food service. For a list of objectives completed in each section see **Appendix 1-A**.

To complete this report, auditors gathered and assessed data from various sources pertaining to key operations, conducted interviews with District personnel, and assessed requested information from MLSD and other school districts. AOS developed a composite of eight selected districts which was used for peer comparisons. The selected districts were East Holmes Local (Holmes County), Garaway Local (Tuscarawas County), Indian Valley Local (Tuscarawas County), Leipsic Local (Putnam County), Loudonville-Perrysville Exempted Village, (Ashland County), New London Local (Huron County), New Riegel Local (Seneca County), and Springfield Local (Mahoning County).

These districts are classified as rural/agricultural districts with low median incomes and high poverty rates, low per pupil costs, and an academic designation of excellent. The data obtained from the peer districts was not tested for reliability, although it was reviewed in detail for reasonableness. Also, external organizations and sources were used to provide comparative information and benchmarks. They included ODE, the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), the National Center for Education Statistics (NCES), and other related best practices. Information used as criteria (benchmarks or leading practices) was also not tested for reliability. The District inquired as to whether any of the peer districts or other area districts met these benchmarks. While there are other Ohio school districts that meet these benchmarks and best practices, the methodology does not specifically determine which peer or area districts meet them.

The performance audit process involved significant information sharing with MLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues impacting selected areas, and to share proposed recommendations to improve or enhance operations. Throughout the audit process, input from MLSD was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District provided verbal and written comments in response to the various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on the District's comments.

The Auditor of State and staff express their appreciation to the Minford Local School District for its cooperation and assistance throughout this audit.

Subsequent Events

In August 2007, the Board and the classified employees represented by the Ohio Association of Pubic School Employees agreed to extend their collective bargaining agreement through FY 2009-10. The District's collective bargaining agreement with its teaching and other certificated staff runs through FY 2008-09. Provisions of both agreements were assessed in **human resources**.

During the course of the audit, MLSD submitted the required October 2007 five-year forecast which projected much smaller ending fund balances. However, the methodology and documentation of the forecast assumptions presented for the October forecast were essentially the same as used for the May forecast update. The revised five-year forecast presented in **Table**

2-5 in **financial systems** has taken into account material changes in the District's October five-year forecast.

Noteworthy Accomplishments

During the course of the audit, the following practices were identified as noteworthy accomplishments.

- MLSD took the initiative to reduce its insurance costs by helping form a consortium to purchase property, fleet, and liability insurance. The District's insurance expenditures per active bus for FY 2005-06 were 47.6 percent lower than the peer average.

- MLSD employs four custodians who work 8 hours per day on 186 day contracts for services during the school year. This enables the District to provide a full staff during peak usage periods.

Key Recommendations

The performance audit contains several recommendations pertaining to MLSD's operations. The most significant recommendations are presented below.

In the area of *financial systems*, MLSD should:

- Create and maintain a clearly written, multi-year strategic plan to provide vision and direction for the District. Along with the goals identified in the District's Comprehensive Continuous Improvement Plan (CCIP), the strategic plan should incorporate broader educational goals and any operational goals.

- Review and, when necessary, revise its coding practices to ensure that expenditures are correctly labeled and categorized.

- Improve its internal controls over several financial areas by expanding and, when necessary, updating existing policies and procedures. Specifically, MLSD should:

    - Develop a comprehensive set of financial policies that are based on recommended best practices.

    - Adopt a Board-approved ethics policy consistent with guidelines suggested by the Ohio Ethics Commission.

  - Create an effective system of internal controls for the purchasing process, by emphasizing the importance of formal procedures; identifying risks, outlining control activities, communicating control policies and procedures; and monitoring compliance.

  - Develop written policies and guidelines to govern the practices followed by the Treasurer's Office for vendor payments.

  - Establish policies and procedures that are in line with best practices for the procurement of contracted services.

  - Update its policy and implement internal controls pertaining to credit card use.

  - Establish comprehensive internal controls over its payroll process that encompass the full range of operations in the payroll function.

- Revise and fully document its methodology for the major line-items in its five-year forecast. The District's forecast methodology should take into account historical trends and include the impact of any known changes in the economy, legislation, educational programs, and District operations. Most importantly, the District's methodology and assumptions should support and explain the basis for its projections.

- Implement the recommendations contained in the performance audit to help offset projected deficits and allow the District to maintain a positive year-end balance through FY 2011-12.

In the area of *human resources*, MLSD should:

- Apply recommended practices to reduce its health insurance premiums to be more in line with the State Employment Relations Board (SERB) average for districts in the Columbus region. MLSD should consider modifying or re-designing its insurance plan in order to reduce its health insurance costs.

- Negotiate an increase to the employee contribution toward health insurance premiums to at least 10 percent for both classified and certificated employees to be more in line with State-wide averages.

- Negotiate a phase out of the 4 percent retirement pick up that the Board pays for all employees covered by the collective bargaining agreements. Picking up the employee's share of retirement contributions is typically individually negotiated by top administrators. While paying a portion of all employees' retirement share is not disallowed under State law, it inflates the employee's total compensation and increases District compensation costs.

In the area of *facilities*, MLSD should:

- Hire one additional FTE for its maintenance operations. In addition the District should consider reallocating one custodial FTE to grounds keeping. This will bring Maintenance Department staffing closer to industry standards and better distribute the workload among existing employees.

- Develop and implement a procedure manual for custodial operations and establish performance measures to monitor custodial efficiency. The manual should include specific cleaning procedures and performance measures for the custodial staff and be reviewed with all custodians. Performance evaluations, based on the performance standards outlined in the manual, should be conducted annually to provide custodians with feedback on their performance.

- Develop and implement a comprehensive energy conservation program. This program should include operating procedures to reduce energy consumption; such as conducting periodic energy audits, tracking energy usage and costs, and educating students and employees on energy conserving behavior.

- Establish a formal preventive maintenance plan that is linked to its work order system and facilities master plan.

- Implement a comprehensive computerized work order system. The work order system would enable the District to track requests, allocate materials, assign tasks, set priorities, and review productivity statistics.

- Develop a facilities master plan which includes a five-year capital improvement plan, updated facilities assessment information, and up-to-date enrollment projections and capacity analyses.

In the area of *transportation*, MLSD should:

- Strengthen its internal controls by developing and implementing a system of written policies, procedures, guidelines and training to ensure that transportation data are collected, reviewed, and reportedly accurately.

- Eliminate three active buses and use them as spares by revising and consolidating bus routes. This will increase the District's riders per bus to a level more comparable to the peer districts.

- Track the price it pays for transportation related items and use that data to determine if the District is receiving competitive pricing by comparing prices to multiple suppliers and consortiums.

- Develop a formal bus replacement plan that ties to the overall District capital plan. In addition, it should document its maintenance practices in a written maintenance plan.

- Include transportation personnel in the Individual Education Program (IEP) process to help ensure the District is providing the safest and most efficient method of transportation for its special needs students. In addition, decisions on how a special needs student is transported should be documented by including an explanation for why the method of transportation was chosen.

In the area of *food service*, MLSD should:

- Develop a strategic plan with specific goals and objectives for the food service operation. Based on the identified strategic goals and objective, MLSD should develop a budget and five-year forecast of the Food Service Fund and a comprehensive set of performance measures.

- Charge all food service related expenses to the Food Service Fund, regardless of the fund's ability to maintain a positive fund balance in order to have an accurate understanding of operational costs.

- Reduce 10 labor hours from its food service operation in order to create a self-sufficient food service operation without further raising meal prices. This would bring the number of meals per labor hours in line with the national standards set forth by NFSMI.

- Attempt to increase participation rates in its breakfast and lunch programs in order to maximize federal reimbursement and sales.

Issue for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that AOS did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have time or the resources to pursue. AOS has identified the following issue:

> The company that designed the software for MLSD's centrally controlled HVAC system is no longer in business. Software support is no longer available and, if the software fails, it could cause catastrophic damage to the HVAC system and could potentially make it unsafe to house students in the school buildings. MLSD should determine if there are specialists (perhaps prior employees of the company) who could be retained for support issues until a permanent resolution is found. Meanwhile the District should examine alternatives to its software and determine if it should be replaced. If it is determined that the software should be replaced, the District should follow best practices for vendor selection while incorporating expected associated expenditures into the District's capital improvement plan (see **R4.7** in **facilities**).

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions which MLSD should consider. Some of the recommendations depend on labor negotiations or collective bargaining agreements (see **human resources** section). Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Performance Audit First-Year Savings and Costs Implications [1]

	Estimated First Year Savings	Estimated Costs
General Fund Recommendations Not Subject to Negotiations		
R3.2 Reduce health insurance premiums to the SERB State average	$56,100	
R4.1 Hire 1 FTE maintenance worker		$51,000
R4.4 Implement an energy conservation program	$11,000	
R4.6 Purchase work order tracking software		$2,500
R5.3 Reduce three active buses	$50,600	
R5.5 Replace two buses		$18,500 [2]
R6.2 Use cost allocation to account for all expenses of the food service operation	$65,500 [3]	
Subtotal Not Subject to Negotiation	***$183,200***	***$53,500***
General Fund Recommendations Subject to Negotiations		
R3.3 Increase employee health insurance share to 10 percent	$65,300 [4]	
R3.5 Eliminate classified paid calamity days	$18,300 [5]	
Subtotal Subject to Negotiations	***$83,600***	***N/A***
Total General Fund Impact of Performance Audit Recommendations	**$266,800**	**$53,500**
Food Service Fund Recommendations		
R6.2 Use cost allocation to account for all expenses of the food service operation		$65,500
R6.3 Reduce labor hours to meet NFSMI benchmark	$43,100	
R6.4 Implement customer satisfaction survey and direct certification to increase participation rates	$17,000	
Total Food Service fund Impact of Performance Audit Recommendations	**$50,100**	**$65,500**

Source: Performance audit recommendations

Note1: The financial implications summarized above are presented on an individual basis. The magnitude of cost savings associated with some recommendations could be affected or offset by the implementation of other interrelated recommendations.

Note 2: A one-time savings of $25,000 would be realized through the sale of two modular buildings (**R4.2**). This amount is not included in the above table as revenue from the sale of any modular units is assumed to be set aside for future building improvements.

[1] Savings and cost estimates based on implementation in FY 2008-09 unless otherwise noted.

[2] Cost estimated to occur in FY 2011-12.

[3] Allocation of food service costs will result in General Fund savings.

[4] Assumes both bargaining units negotiate 10 percent employee contributions by FY 2010-11. There is the potential for $44,000 in additional savings for FY 2009-10 if successfully negotiated into a new certificated agreement.

[5] Because of current negotiated agreement, assumes implementation in FY 2010-11.

Appendix 1-A: Audit Objectives

Objectives completed for each section of this audit are as follows:

Financial Systems

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How does the District's expenditures per student compare with peer districts?
- Does the District have comprehensive financial policies and procedures that meet GFOA best practices?
- Does the District's five-year forecast reasonably and logically project the District's future financial situation?
- How do the recommendations in the performance audit and forecast adjustments impact the financial condition of the District?
- Does the District report appropriate financial information to management and the community?
- Has the District developed a strategic plan which links educational and operational plans and meets best practice criteria?
- Has the District established inventory controls over consumable supplies and materials that meet best practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that meet best practice criteria?
- Does the District effectively manage payroll operations?

Human Resources

- How do staffing levels compare with other high performing districts?
- Is the District's compensation package in line with other high performing districts, state averages, and industry practices?
- How does the cost of benefits offered by the District compare with state averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and best practices?
- Does the District effectively manage human resource issues?
- Would a properly structured Retirement Incentive be an effective way to reduce long-term personnel costs?

Facilities

- How does the District's M&O department compare to peer districts and industry benchmarks?
- Has the District established procedures and performance standards to ensure efficient operations?
- Does the District effectively use and plan for building capacity?
- Does the District have a staff development program that includes appropriate training for maintenance and operations staff?
- Are District energy management practices comparable to best practices?
- How does the District's facility management and planning practices compare with best practices?
- Does the M&O department have and effective and equitable system for prioritizing maintenance needs?

Transportation

- How does the District's transportation policy and procedures compare with best practices and impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District's "yellow bus" (Type I & II) transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost effectiveness of transportation operations through improved human resource management?
- Does the District have sufficient controls in place to ensure the security of its buses, equipment, parts, supplies, and fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?
- Is the District providing specialized transportation service in an effective and efficient manner?

Food Service

- Is the current status of the District's food service operation positive?
- Are the District's food services human resources allocations and management processes comparable to recommended practices and benchmarks?
- Are the District's food service information systems adequate and properly used?
- Does the District effectively monitor participation in free and reduced lunch programs?

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Financial Systems

Background

This section focuses on the financial systems in the Minford Local School District (MLSD, or the District). This section analyzes the current and future condition of MLSD for the purpose of developing recommendations to improve financial management and identify opportunities for greater efficiency.[1] The District's five-year forecast was also analyzed to ensure that the projections were reasonably indicative of future operational and financial conditions. Operations were evaluated against best practices, industry benchmarks, operational standards, and selected peer districts[2] in order to develop recommendations that will improve efficiencies and business practices. Best practices and industry standards were drawn from sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO).

According to the fiscal caution guidelines developed by ODE, and in conjunction with the Office of Auditor of State (AOS), a district may be placed in fiscal caution by the Superintendent of Public Instruction when there is a potential current year deficit and no acceptable plan in place to address it. MLSD was placed in fiscal caution on April 27, 2007 based on an ODE financial analysis, which indicated potential deficits of approximately $560,000 and $1.4 million in fiscal year (FY) 2006-07 and FY 2007-08, respectively. Along with the fiscal caution declaration, ODE requested MLSD submit a fiscal caution proposal that addressed the potential current and future year deficits by June 27, 2007.

Table 2-1 represents the District's May 31, 2007 updated five-year forecast which included the reductions submitted to ODE as part of its fiscal caution proposal. ODE accepted the District's proposal on July 11, 2007.

[1] See **Appendix 1-A** in the **executive summary** for a summary of the financial systems objectives.
[2] The peers include: East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Indian Valley LSD (Tuscarawas County), Leipsic LSD (Putnam County), Loudonville-Perrysville Ex. Vil. (Ashland County), New London LSD (Huron County), New Riegel LSD (Seneca County), and Springfield LSD (Mahoning County).

Treasurer's Office Operations

The Treasurer's Office consists of two staff members; the Treasurer, who reports to the Board, and the Assistant Treasurer, who reports directly to the Treasurer. The Treasurer's Office is responsible for processing payroll, administering accounts payable/receivable, and reporting District finances to the Board and general public. The Treasurer's Office is guided by Board-approved policies and procedures that address administrative ethics, budgeting, fiscal planning, purchasing, and payroll. Although the Board's financial policies contain some elements of recommended practices, they could be improved upon and expanded (see **R2.6 through R2.13** for detailed recommendations**).**

Financial Condition

Ohio Revised Code (ORC) section 5705.391 requires all city, local, exempted villages, and joint vocational school districts to submit a five-year forecast of general operating revenues and expenditures to ODE. The forecast format consists of three years of historical data, projections for the current and four ensuing years, and a summary of key assumptions. The financial forecast presented in **Table 2-1** represents the Treasurer's projections of present and future conditions as of May 31, 2007 and shows projected revenues, expenditures, and ending fund balances for each of the fiscal years ending June 30, 2007 through June 30, 2011.

Table 2-1: Minford Local School District Five-Year Forecast (in 000's)

	Actual			Forecasted				
	FY 2003-04	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**
Revenue:								
General Property Tax	$1,221	$1,309	$1,404	$1,404	$1,424	$1,445	$1,463	$1,485
Tangible Personal Tax	$29	$37	$37	$23	$15	$7	$3	$1
Unrestricted Grants-in-Aid	$8,184	$8,665	$8,605	$8,972	$9,598	$9,867	$10,133	$10,407
Restricted Grants-in-Aid	$493	$526	$536	$643	$623	$642	$661	$681
Property Tax Allocation	$175	$199	$217	$229	$239	$251	$263	$278
All Other Revenues	$1,540	$1,396	$1,493	$1,526	$2,080	$1,603	$1,623	$1,635
Total Revenues	$11,645	$12,134	$12,294	$12,800	$13,981	$13,817	$14,148	$14,489
Proceeds from Sale of Notes	$0	$0	$2,300	$0	$0	$0	$0	$0
Operating Transfers-In	$14	$77	$238	$6	$0	$0	$0	$0
Advances-In	$2	$0	$0	$182	$0	$0	$0	$0
All Other Financial Sources	$12	$181	$8	$4	$9	$5	$4	$9
Total Other Financing Sources	$29	$258	$2,546	$194	$9	$5	$4	$9
Total Revenues & Other Financing Sources	**$11,674**	**$12,393**	**$14,841**	**$12,994**	**$13,991**	**$13,822**	**$14,153**	**$14,499**
Expenditures:								
Personal Services	$6,214	$6,340	$6,909	$6,783	$6,636	$6,549	$6,811	$6,984
Employees' Retirement/Insurance Benefits	$2,400	$2,474	$2,466	$2,756	$2,785	$2,813	$2,848	$2,881
Purchased Services	$1,599	$1,588	$2,160	$2,074	$1,735	$1,750	$1,802	$1,843
Supplies and Materials	$477	$618	$580	$523	$595	$601	$611	$625
Capital Outlay	$284	$317	$1,739	$1,374	$455	$430	$450	$475
Debt Service:								
Debt Service: Principle – Other	$17	$72	$164	$238	$196	$205	$215	$225
Debt Service: Interest and Fiscal Charges	$1	$4	$65	$101	$92	$80	$70	$61
Other Objects	$513	$521	$635	$561	$582	$712	$780	$810
Total Expenditures	$11,509	$11,937	$14,721	$14,413	$13,078	$13,144	$13,591	$13,907
Other Financing Uses								
Operational Transfers-Out	$254	$95	$305	$6	$0	$0	$0	$0
Advances-Out			$27	$153	$27	$29	$28	$29
Total Other Financing Uses	$254	$95	$332	$160	$27	$29	$28	$29
Total Expenditures and Other Financing Uses	**$11,763**	**$12,033**	**$15,053**	**$14,574**	**$13,105**	**$13,173**	**$13,620**	**$13,937**
Result of Operations (Net)	**($88)**	**$359**	**($212)**	**($1,579)**	**$885**	**$648**	**$533**	**$562**
Balance July 1	$1,590	$1,502	$1,862	$1,649	$70	$955	$1,604	$2,137
Cash Balance June 30	$1,502	$1,862	$1,649	$70	$955	$1,604	$2,137	$2,699
Estimated Encumbrances June 30	$497	$682	$1,261	$235	$255	$255	$255	$255
Bus Services	$0	$0	$0	$21	$21	$21	$21	$21
Total Reservations	$0	$0	$0	$21	$21	$21	$21	$21
Reservation of Fund Balance								
Fund Balance June 30 for Certification of Appropriations	**$1,005**	**$1,179**	**$388**	**($186)**	**$679**	**$1,328**	**$1,861**	**$2,423**

Source: MLSD May 2007 five-year forecast as submitted to ODE.
Note: Numbers may vary due to rounding.

By its nature, forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common as circumstances and conditions frequently do not occur as expected. The Treasurer developed a document listing the forecast assumptions and made it available to stakeholders through the ODE web site. At the time the forecast was submitted, the District was projecting a negative unreserved fund balance in FY 2006-07. However, the District projected positive fund balances beginning in FY 2007-08 that were expected to grow to $2.4 million by FY 2010-11.

The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as unrestricted and restricted grants-in-aid, other revenue, salaries, benefits, purchased services, and supplies and materials. AOS analyzed the assumptions and methodologies, and recommended changes where appropriate (see **R2.16**).

Financial Operations – Expenditures

Expenditures by Function Comparison

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, functions must continually be evaluated and prioritized. **Table 2-2** compares MLSD's FY 2006-07 expenditures on a per pupil basis to the peer average. Total expenditures are based on the ODE Expenditure Flow Model (EFM).[3] In FY 2006-07, the District's total expenditures per pupil (EPP) were slightly below the peer average (0.8 percent). Higher spending than the peer average on administration, operations, and staff support were offset by below average spending on instruction and pupil support. The implementation of its fiscal caution proposal and the recommendations in **human resources**, **transportation**, and **facilities**, should help bring the District's EPP by function more in line with the peer average.

[3] The purpose of the EFM, as described by ODE, is to categorize and report expenses related to the education of kindergarten through twelfth grade students and does not include all the funds accounted for by a school district. EFM dollars were divided by the full-time equivalent number of students educated by the districts in order to ensure equitable comparisons.

Table 2-2: FY 2006-07 Expenditure per Pupil Comparison

	MLSD		Peer Average				
	Total $	$ Per Student	Total $	$ Per Student	Difference Per Student	Percent Difference	Adjustment Needed to Equal Peers
Administration	$1,726,934	$1,125	$1,234,365	$1,089	$36	3.3%	($54,667)
Operations Support	$2,696,784	$1,757	$1,941,571	$1,683	$74	4.4%	($113,858)
Staff Support	$447,002	$291	$203,787	$149	$142	95.6%	($218,462)
Pupil Support	$1,127,856	$735	$873,022	$775	($40)	(5.1%)	$61,035
Instruction	$7,218,268	$4,703	$5,696,145	$4,980	($278)	(5.6%)	$426,486
Total	**$13,216,844**	**$8,610**	**$9,948,890**	**$8,676**	**($65)**	**(0.8%)**	**$100,534**

Source: ODE Expenditure Flow Model and enrollment information for MLSD and the peers.
Note: Numbers may vary due to rounding.

Table 2-2 shows MLSD spent significantly more than the peer average in the following categories:

- **Administration**: MLSD spent approximately $36 more per pupil (3.3 percent) than the peer average in FY 2006-07. These costs are associated with the Board of Education, administrative offices, and the Treasurer's Office, and primarily consist of salaries and benefits. Due to the retirement of an administrator at the end of FY 2006-07 that will not be replaced, it is expected that administration costs per pupil would be at or below the peer average in FY 2007-08.

- **Operations Support**: MLSD spent approximately $74 more per pupil (4.4 percent) than the peer average in FY 2006-07. Operations support includes expenses for the maintenance and upkeep of buildings, the food service operation, and pupil transportation. An analysis completed in **facilities** concluded that MLSD's operational and maintenance costs are in line with the peer average. However, the analysis completed in **transportation** indicates that the District could potentially reduce bus levels; in effect reducing bus related expenditures (see **R5.3** in **transportation**). Furthermore, **food service** identified cost savings from the reduction of labor hours (see **R6.3** in **food service**), again reducing expenditures for the Food Service Department. By carrying out the recommendations found in **transportation** and **food service**, MLSD's spending levels per pupil should become more comparable with those of the peers.

- **Staff Support**: MLSD spent nearly twice as much per pupil ($291) than the peer average ($149). Approximately 56.9 percent of expenditures relating to support staff include salaries and benefits for the Technology Coordinator, the Technology Curriculum Director, part-time technology staff, and travel / meeting expenses. Further examination of these expenditures concluded that a percentage of these expenses could be coded to other areas such as pupil support and/or instruction (see **R2.2** in **financial systems**).

MLSD may be more comparable to the peer average after the reallocation of expenditures to the proper lines items.

MLSD's total expenditure per pupil was lower than the peer average in FY 2006-07 and should be ever lower next year due to actions taken by the District to address potential deficits. Future expenditures for operations support and staff support should become more comparable to the peer average if the recommendations in this performance audit are implemented. The District's fiscal caution proposal should lower administrative costs to a level that is comparable with peers.

Discretionary Expenditures

Discretionary expenditures are items not governed by negotiated agreements, administrative contracts, or statutory requirements, so a district can control these expenditures to some degree in the short term. **Table 2-3** details FY 2005-06 and FY 2006-07 General Fund discretionary expenditures, and expenditures per student for MLSD and the FY 2005-06 average expenditures for the peers. Discretionary expenditures accounted for approximately 14.8 percent of the District's general operating expenditures in FY 2005-06, and 12.1 percent in FY 2006-07. FY 2006-07 discretionary expenditures decreased due to the District's efforts to reduce spending to avoid a year end deficit.

Table 2-3: FY 2005-06 and FY 2006-07 Discretionary Expenditures

	MLSD FY 2005-06		MLSD FY 2006-07		Peer Average FY 2005-06	
Discretionary Expenditures	**Total $**	**$ per Student**	**Total $**	**$ per Student**	**Total $**	**$ Per Student**
Professional & Technical Services	$315,667	$205	$110,044	$72	$216,755	$239
Property Services	$171,132	$111	$130,547	$85	$151,988	$169
Mileage/Meeting Expense	$37,617	$24	$24,803	$16	$24,560	$20
Communications	$43,628	$28	$66,267	$43	$27,480	$25
Craft or Trade Services	$0	$0	$0	$0	$1,585	$1
Pupil Transportation Services	$0	$0	$0	$0	$6,927	$6
Other Purchased Services	$0	$0	$0	$0	$2,857	$2
General Supplies	$201,417	$130	$98,139	$64	$148,114	$132
Textbooks/Reference Materials	$65,980	$43	$81,744	$53	$42,865	$54
Plant Maintenance & Repairs	$84,209	$55	$4,076	$3	$57,470	$55
Fleet Maintenance & Repairs[1]	$228,830	$148	$186,962	$122	$103,132	$89
Other Supplies & Materials	$0	$0	$5,570	$4	$14,095	$27
Capital Outlay (New)[1, 2]	$381,400	$247	$413,469	$269	$168,569	$113
Dues & Fees	$626,836	$406	$549,704	$358	$186,207	$180
Insurance	$9,086	$6	$6,684	$4	$13,185	$13
Total Discretionary Expenditures	$2,165,802	$1,403	$1,678,010	$1,093	$1,165,797	$1,125
Discretionary Expenditures as a Percent of General Fund Expenditures	**14.8%**		**12.1%**		**12.7%**	
Total General Fund Expenditures	**$14,632,752**		**$13,867,609**		**$9,059,517**	

Source: FY 2005-06 school district year end financial records and ODE enrollment information for MLSD and the peers.
Note: Numbers may vary due to rounding.
[1] These line items were analyzed further due to the material differences between MLSD and the peer average for FY 2005-06.
[2] Capital outlay only includes 600 object codes for new purchases. In contrast, capital outlay in the five-year forecast includes purchases for both new (600) and replacement (700).

MLSD spent approximately $278 more per pupil on discretionary spending than the peer average in FY 2005-06. However, the District lowered its discretionary spending by $310 per student in FY 2006-07 due to its financial situation. MLSD spent more for mileage and meetings, communications, fleet maintenance and repairs, capital outlay, and dues and fees than the peers. With the exception of capital outlay, expenditures per pupil and overall spending levels decreased in these areas in FY 2006-07. In the area of fleet maintenance and repair, the District's expenditures exceeded the peer average per pupil expenditures by approximately 66.4 percent. Moreover, 58.4 percent of the fleet maintenance and repair expense can be associated with fuel used to operate motor vehicles (see **R5.4** in **transportation**).

The District also spent more per pupil than the peer average in the area of capital outlay. The majority of these expenditures are related to the newly constructed athletic and services buildings. With the completion of the construction projects, it is expected that the District's capital outlay expenditures would decline to pre-construction spending levels. However, in FY 2006-07 there is an increase in capital outlay due to the District spending additional money on computer equipment. Finally, MLSD's per pupil expenditures for dues and fees exceeded the peer average by approximately 125.4 percent; however, 92 percent of these costs can be attributed to services rendered from the Scioto County Educational Service Center (ESC). According to Uniform School Accounting System definitions, ESC charges typically would be coded as professional and technical services.

Recommendations

Planning

R2.1 MLSD should create and maintain a clearly written, multi-year strategic plan to provide vision and direction for the District. Along with the goals identified in its Comprehensive Continuous Improvement Plan (CCIP), the strategic plan should incorporate broader educational goals and any operational goals of the District. In developing the strategic plan, the Board should identify and formally adopt a limited number of District priorities to guide its strategies and major financial, capital, and program decisions. The strategic plan should clearly delineate the District's goals and objectives, as well as the strategies for achieving them; the performance measures and standards the District will use to judge progress; the persons or departments responsible; and the time frames for implementation. Once a comprehensive strategy is adopted and approved, MLSD should assess all parts of the strategic plan on an annual basis and, as appropriate, amend its priorities to reflect changes in internal and external conditions.

The District has not developed a multi-year strategic plan that incorporates all elements of its operations. According to *Recommended Budget Practices on the Establishment of Strategic Plans* (Government Finance Officers Association, 2005), entities should develop a multi-year strategic plan that provides a long-term perspective for services delivered and budgeting, thus establishing logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, the Government Finance Officers Association recommends that entities take the following actions:

- Initiate the strategic planning process;
- Prepare a mission statement;
- Assess environmental factors and critical issues;
- Agree on a small number of goals and develop strategies and action plans to achieve them;
- Develop measurable objectives and incorporate performance measures;
- Approve, implement and monitor the plan; and
- Reassess the strategic plan annually.

While MLSD has developed a mission statement, it should adopt a strategic plan that is linked to each school's improvement plan, as well as State and District educational and operational goals. The goals, objectives, and strategies in the strategic plan should be listed in their order of importance. By implementing a strategic plan, the District can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational and operational objectives. In addition, a strategic plan could result in the following:

- Improved communication between the District, the community, and town officials;
- Better focus and direction for the Board;
- The alignment of other planning processes to the District-wide strategic plan;
- The establishment of uniformity among staff in working toward the accomplishment of prioritized goals; and
- The alignment of the budget process with strategic goals and objectives.

Other operational areas of the District, such as transportation and facilities, should provide input to the strategic planning process bringing specific information about their particular area of operations. Finally, MLSD should ensure that the staffing plan (see **R3.1** in **human resources**), the comprehensive facilities master plan (see **R4.7** in **facilities**), and the bus replacement plan (see **R5.5** in **transportation**) are linked to the strategic plan.

Financial Reporting

R2.2 The Treasurer's Office should review and, when necessary, revise the District's coding practices to ensure that expenditures are correctly labeled and categorized. The Treasurer should use the coding structure outlined in the Uniform School Accounting Systems Users (USAS) Manual to accurately describe the type and purpose of the expenditure. Using detailed expenditure codes in the accounting system will provide management more accurate financial information for use in comparisons and analyses, and will increase the reliability of the five-year-forecast projections.

In analyzing the District's year end financial records, auditors noted instances where the transaction codes lacked detail or appeared to be inaccurately used. For example, 99 percent of the District's transportation expenditures in FY 2006-07 were coded as if they were for the transportation for students with disabilities. Also over 88 percent of expenditures for the operation of facilities were coded with a general function code (2700), which does not identify details about the transaction such as whether the dollars were for buildings, grounds, furniture and equipment, or maintenance. Furthermore, the Technology Coordinator and Technology Curriculum Director salaries and benefits were coded to staff support. However, with the duties of these staff members, it is reasonable to assume that a percentage of the salaries could be coded to other functional areas such as operations support, pupil support, or instruction.

USAS is based upon the use of a combination of dimensions (different sets of codes, each of which supplies different elements of information). By selecting the most appropriate code within each required dimension, each financial transaction of the school district is adequately identified. The use of certain dimensions to identify each type of financial transaction is the responsibility of the school district. Coding decisions should consider the informational needs and requirements of the school district, ODE, the Office of the Auditor of State, and other regulatory agencies.

General classifications do not provide enough information for accountability and responsive management. Objects of expenditures such as salaries, purchased services, supplies, and materials are meaningless unless they are consistently related to the appropriate fund and function. By relating a specific expenditure to all applicable dimensions, the Treasurer's Office can provide more information to management and better aid the District in financial decisions and performance measurement.

R2.3 MLSD should develop standardized financial reports, to be distributed to Board members prior to the monthly meetings. These reports should include analytical and other information deemed necessary by the Board members to make informed decisions.

The Treasurer provides Board members with monthly reports, including a cash reconciliation report, a financial report by fund (FINSUM), and a monthly reconciled check report (CHEKPY).

Monitor, Measure and Evaluate Budgetary Performance (Government Finance Officers Association, 2000) notes that regular monitoring of budget performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed due to changing circumstances. Districts such as the Lebanon City School District in Warren County provide its Board members with a more comprehensive set of monthly reports which includes the following:

- Treasurer's Update – This includes a summary of the major transactions and an update of the day-to-day operations of the Treasurer's Officer which occurred during the month.

- Financial Notes – This report highlights larger receipts which were received and a list of large expenditures.

- General Fund Monthly Cash Balance – This report includes the history and the current cash balance of the General Fund by month.

- General Fund Monthly Expenditures - This report shows the history and the current total expenses by month.

- General Fund Monthly Revenue – This report shows the history and the current monthly revenue.

- General Fund Cash Flow Analysis – This report details the year-to-date actual revenue and expenditures, the projected totals, and the difference.

- Bank Reconciliation – This report shows the status of all investments.

- Bank Reconciliation Summary – This report shows the fund balance of each fund, bank balance, investments, and all outstanding checks.

- Financial Report by Fund (FINSUM) – This report shows the beginning balance, month to date expenditures / receipts, current fund balance, and the current encumbrances.

- Monthly Warrant / Refund / Payroll Check – This report shows all investment checks, transfers checks, distribution checks, payroll checks, and missing checks.

A more comprehensive reporting system would enable Board members to make more informed decisions, which is particularly important given the District's recent financial situation. This approach would also provide an opportunity for the Treasurer to present financial information to other stakeholders within and outside the District, such as staff, administrators, community members, and other public officials.

R2.4 MLSD should develop and release a comprehensive annual financial report (CAFR) and a popular annual financial report (PAFR). The District should ensure that these reports are readily available and publicized through several forms of communication, such as public libraries, mailings to major businesses, the District's web site (see R2.5), and press releases to the local media. These reports should also be reviewed by Board members and administrators, and copies should be made available to the public upon request.

MLSD does not publish a CARF or a PAFR. According to the Government Finance Officers Association, governments should develop a CAFR. A CAFR is an unparalleled means of demonstrating financial accountability, as recognized by the National Council of Governmental Accounting and reiterated by the Governmental Accounting Standards Board. The Government Finance Officers Association also recommends that governments issue a PAFR. A PAFR is designed to assist those who need or desire a less detailed overview of government financial activities than the CAFR provides. A PAFR can take the form of consolidated or aggregated presentations, or a variety of other forms. Although outsourcing the development of a PAFR can be costly, the District can create a PAFR-like document by including the characteristics that a PAFR should exhibit, which can be found at http://www.gfoa.org. The Westerville City School District in Franklin County develops both a CAFR and PAFR, which are used by community members, Board members, staff, and local businesses to gain insight into the financial operations of the district.

Providing enhanced financial and statistical reporting through a CAFR and PAFR would provide stakeholders insight into District operations and a better understanding of the its financial condition and outlook. Although there is a cost associated with the preparation and printing of CAFR and PAFR documents, some components of this work could be performed in-house. The Treasurer's Office could develop the CAFR and the tables and graphs associated with the PAFR, and publish these documents on its web site. Using electronic media to publish the CAFR and PAFR would greatly reduce the cost of production and distribution.

R2.5 MLSD should better use its web site as a means to inform and educate its residents about District finances. The District should provide a number of published documents, including but not limited to budget documents, the CAFR, the PAFR (see R2.4), and any other financial reports provided to the Board (see R2.3), on its web site.

MLSD's web site contains information on operational functions of the District, such as food service and transportation, as well as information about the Board of Education and each school. Although the District has been proactive in providing the community with this type of information, there is no information pertaining to the financial operations of the District. School districts, like Wayne Trace Local School (Paulding County), Westerville City School District (Franklin County), and Olentangy Local School District (Delaware County), provide a range of financial information on their web sites, which often contain the following:

- **Levy Information** – Includes levy facts, reappraised home values and school taxes, property tax calendar, income tax calculator, Ohio school district income tax, and a glossary of terms.

- **Expenditures by Object/Function** – Illustrates salary, benefit, purchased services, capital outlay, maintenance, transportation, and extracurricular activity expenditures.

- **Appropriations and Forecasts** – Provides the current five-year forecast, notes for understanding the five-year forecast, appropriations, tax budget, and historical year end analysis.

- **Taxes/Millages/Valuations** – A tax calculator, presentation of Governor's Blue Ribbon Task Force on Student Success, county area effective tax rates (historical information), tax rate history, and question and answers on taxes and millage.

- **Annual Reports** – Provides historical information, in addition to the CAFRs and PAFRs.

- **Miscellaneous** – Shows the audit findings, school finance terms, state financial designations, ODE Local District Report Cards, reports on enrollment, and finance and audit committee information.

By providing key financial information to District residents online, MLSD can increase awareness and understanding of its financial condition. Using the web site also reduces the number of public document requests and eliminates the cost associated with providing information in paper format. In addition, the electronic form provides the users with a computerized tool to find, extract, and analyze data contained in these often-lengthy documents. Although staff time is required to develop the information for the web site and then maintain and update it, MLSD could enhance the type of financial reports made available to the public through its web site at little additional cost.

Internal Controls

R2.6 MLSD should improve its internal controls over several financial areas by expanding and, when necessary, updating existing policies and procedures. Furthermore, MLSD should evaluate its policies and procedures on an annual basis to ensure that they are in line with its management and District goals and appropriately address identified risks and previously identified weaknesses. Proper internal control procedures will help to ensure that District resources are protected and personnel comply with formalized processes.

During the course of the audit, several assessments noted weaknesses in MLSD's policies and procedures over fiscal management and fiscal reporting. Specifically, the District does not have comprehensive financial policies. It also has not adopted an ethics policy that meets Ohio Ethics Commission recommendations. Internal controls over payroll processes are not formalized in a written procedures manual. In addition the District lacks formal procedures to ensure timely vendor payments. Finally, the District has not instituted an effective credit card policy that meets best practices. These issues are addressed in detail in **R2.7** though **R2.13**.

According to *Best Practices* (Ohio Office of the Auditor of State, Spring 2006), a well-designed internal control structure helps to reduce improper activities. Designing and implementing internal controls is a continuous process which requires risk evaluation, the design, testing and revision of procedures, and formal monitoring. Also, as conditions change, controls procedures many become outdated and inadequate. Management must therefore anticipate that certain procedures will become obsolete and modify internal controls systems in response to these changes.

Well documented and maintained policies and procedures enhance both accountability and consistency among staff and management. MLSD could improve its internal controls through more comprehensive and up-to-date policies and procedures. These policies and procedures could be developed internally, using the examples given in **R2.7** through **R2.14**, at no additional cost to the District.

R2.7 MLSD should develop a comprehensive set of financial policies that are based on recommended best practices. Once a comprehensive set of financial policies has been developed and adopted by the Board, the District should ensure that its financial and budgetary practices are consistent with these policies.

The District has a limited number of financial policies within the MLSD Board Policy manual (Board manual). In addition, some policies do not contain all the elements of best practices. According to the Government Finance Officers Association (GFOA), financial policies should be consistent with broad government goals and should be the outcome of sound analysis. Policies should also be consistent with each other and relationships between policies should be identified. Financial policies should be an integral part of the development of service, capital, and financial plans, and the overall budgeting process. Finally, all adopted budgetary practices should be consistent with these policies.

To ensure that its financial management practices follow recommended guidelines, MLSD should adopt and implement policies in the following areas:[4]

- Budget Stabilization Funds;
- Fees and Charges;
- Debt Issuance and Management;
- Debt Level and Capacity;
- Use of One Time Revenue;

[4] For a detailed descriptions and example of GFOA recommended policies, see http://www.gfoa.org/services/nacslb/

- Use of Unpredictable Revenues;
- Balancing the Operating Budget;
- Revenue Diversification; and
- Contingency Planning.

By expanding its policies to include the comprehensive polices recommended by GFOA, MLSD could better manage its limited resources and ensure consistency in its financial practices. Also, such policies could help MLSD operate more smoothly; be used as a tool for financial decision making; and improve its ability to take timely action on financial matters. In addition, financial policies aid in the overall management of the budget and achievement of the District's long-range goals.

R2.8 As an addendum to its financial policies, MLSD should adopt a Board-approved ethics policy consistent with guidelines suggested by the Ohio Ethics Commission (OEC). The policy should require all staff to conduct themselves, at all times, in a manner that avoids favoritism, bias, and the appearance of impropriety. The ethics policy should contain "conduct restraints" that mirror those recommended by OEC.

The District has not developed an ethics policy that is consistent with OEC guidelines.[5] Although there is not evidence of unethical behavior of personnel; the presence of an ethics policy will help ensure that employees are aware of appropriate and inappropriate actions.

According to the OEC, local governments, officials, and employees must, at all times, abide by protections to the public embodied in Ohio's ethics laws, as detailed in Ohio Revised Code (ORC) §102 and §2921, and interpreted by the OEC and Ohio courts. A copy of these laws should be provided to employees and their receipt acknowledged, as required under ORC § 102.09(D). OEC recommends the ethics policy prohibit employees from the following:

- Solicit or accept anything of value from anyone doing business with the [District];
- Solicit or accept employment from anyone doing business with the [District], unless the official or employee completely withdraws from [District] activity regarding the party offering employment, and the [District] approves the withdrawal;

[5] A sample recommended ethics policy for all district officials and employees entrusted with District' funds can be found at: http://www.ethics.ohio.gov/ModelEthicsPoilcy_localagencies.html.

- Use his or her public position to obtain benefits for the official or employee, a family member, or anyone with whom the official or employee has a business or employment relationship; and

- Be paid or accept any form of compensation for personal services rendered on a matter before any board, commission, or other body of the [District], unless the official or employee qualifies for the exception, and files the statement, described in ORC § 102.04(D).

An official written ethics policy will help ensure that all staff members, particularly those entrusted with District funds, conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Furthermore, a comprehensive ethics policy will help convey to employees the importance of avoiding inappropriate actions or the appearance of impropriety. After the Board updates its ethics policy to include the OEC elements, it should have staff read and sign the policy to acknowledge their understanding of the Board's expectations.

R2.9 The Treasurer's Office should create an effective system of internal controls for the purchasing process by emphasizing the importance of formal procedures, identifying risks, outlining control activities, communicating control policies and procedures, and monitoring compliance. Formal purchasing policies and procedures should be adopted by the Board and effectively communicated by the Treasurer's Office to help ensure the effectiveness of the District's internal controls.

MLSD employees do not consistently follow the purchasing guidelines set forth in the Board's policy manual. Examples are listed below:

- Requisitions require the signature of an authorized "requisitoner" (the superintendent, administrative assistant, director, supervisor, and building principles). Of the requisitions tested, 17.6 percent were not approved, while one was approved by a non-supervisor position.

- Purchase orders must include clear delivery instruction, including place and time. Of the purchase orders selected for testing, 64.7 percent did not display the appropriate delivery information.

- Purchase orders must have the signature of the Superintendent and Treasurer. Of the purchase orders tested, one was missing the appropriate signature.

- Prior to a purchase, a requisition is necessary before the purchase order is issued, which gives the authorization to purchase the goods and or services. Of the purchase orders tested, 47.1 were processed before the requisition. In one case, the purchase was made four days prior to the issuance of the requisition and three days before the purchase order.

- Finally, several of the purchase orders selected for testing were open purchase orders which the Board's policy manual does not address. Due to the nature of open purchase orders, it would be expected that the process would deviate from the standard purchasing process.

The American Institute of Certified Public Accountants' *Audit Guide* (1996) recommends that in order for entities to have effective internal controls in the work place, they should follow a five step process. The steps are: 1) establish an appropriate control environment; 2) assess risk; 3) implement control activities; 4) communicate information; and 5) monitor.

Following these steps for reviewing internal controls will help ensure that the District's polices and procedures are effective and cover all potential purchasing processes. Once the appropriate internal controls are established, it is critical that the District abide by these controls in order to reduce the risk of potential fraud and/or waste.

R2.10 MLSD should develop written policies and guidelines to govern the practices followed by the Treasurer's Office for vendor payments. These policies should address, in particular, maximization of vendor discounts and timely payments.

MLSD's policy for payment procedures addresses the authorization levels of payments, and that the appropriation levels are observed so that the total expenditures do not exceed appropriations. While the District's policies do not include recommended practices for vendor payments, the Treasurer indicated that invoices are paid on a weekly base to avoid late payments and to take advantage of vendor discounts. However, a review of the District's purchase orders revealed that, of the two vendors offering a discount, the District did not pay the invoice specified by the required date. Instead, the District paid the discounted amount despite paying the invoice after the due date. Three of the invoices were not paid by the specified terms, averaging approximately 35 days past the vendors' terms. There were no late fees assessed due to the untimely payments; however, vendors could issue the District fees and charges for not meeting the specified invoice terms.

Extension of Federal Prompt-Pay Requirements to State and Local Governments (Government Finance Officers Association, 1989) emphasizes the importance of timely payments and the issuances of the entities payment policies. These polices should include timing of payments to avoid penalties caused by late payments, and discounts offered from early payments.

Although the District took advantage of the vendor discount and were not charged late fees, policies and procedures for vendor payment would help ensure the District secures future vendor discounts and reduces the risk of being charged late fees.

R2.11 MLSD should establish policies and procedures that are in line with best practices for the procurement of contracted services. Establishing polices and procedures for the procurement of contracted services will help ensure proper internal controls over the process and accountability for the vendors selected.

Board policies pertaining to contracted services and procuring supplies and materials consist of bidding requirements. This policy contains spending guidelines for the construction or demolition of buildings, purchasing guidelines for other supplies and materials, and the responsibility of the Superintendent and Treasurer for the arrangement and awarding of bids.

According to *Contracting Services,* (National State Auditors Association, 2003), governments should develop policies and procedures for the procurement of contracted services. Policies and procedures should include the following:

- **Planning** - Identify what services are needed, when and how they should be provided, and what provisions should be in the contract.
- **Decision to Contract** - Determine whether to outsource or keep the service in house.
- **Performance Requirements** - Develop performance requirements that will hold vendors accountable for the delivery of quality services.
- **Request for Proposal Process** - Issue a request for proposal, a formal process based on fair and open competition and equal access to information.
- **Award Process** - Ensure vendor proposals are responsive to the agency's needs, consistently and objectively evaluated, and contracts are awarded fairly to responsible vendors.
- **Contract Provision** - Ensure the contract (1) protects the interest of the agency, (2) identifies the responsibilities of the parties to the contract, (3) defines what is to be delivered, and (4) documents the mutual agreement, the substance, and the parameters of what was agreed upon.

- **Monitoring -** Ensure that contactors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved.

Policies and procedures surrounding contracted services can be useful to help ensure efficient, effective, and accountable vendors are selected. Furthermore, policies and procedures help ensure consistent application of appropriate internal controls during the procurement process. Finally, following a more formalized contracting process will ensure that MLSD receives the goods and services for which it has contracted.

R2.12 MLSD should update its policy and implement internal controls pertaining to credit card use. An updated credit card policy will help ensure proper internal controls over credit card use and help promote accountability. This policy should be included in the Board manual and be communicated to all employees authorized to make credit card purchases on behalf of the District.

MLSD has developed a District-wide credit card policy. This policy specifies both appropriate and inappropriate credit card use. While this policy incorporates a few best practices, it is missing several important components recommended by the Government Finance Officers Association (GFOA).

According to *Purchasing Card Programs* (GFOA, 2003), if not properly monitored, the issuance of purchasing cards or credit cards to employees could result in internal control issues or abuse. Best practices for the use of purchasing/credit cards include, but are not limited to, the following:

- Written agreement with bank, which includes fee schedule and processing procedures;
- Written policies and procedures for internal staff;
- Spending and transaction limits for each cardholders both per transaction and on a monthly basis;
- Written request for higher spending levels;
- Recordkeeping requirements, including review and approval processes;
- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC);
- Guidelines for making purchases by telephone and fax or over the Internet;
- Periodic audits for card activity and retention of sales receipts and documentation of purchases;
- Procedures for card issuances and cancellation, lost or stolen cards, and employee termination; and
- Segregation of duties for payment approvals, accounting, and reconciliation.

Provided that a Board-approved credit card policy is widely-distributed and enforced and incorporates all best practice elements listed above, it should help ensure proper internal controls over credit card use while promoting employee accountability. Without a comprehensive credit card use policy, the District increases the risk of misuse and potential fraud.

R2.13 MLSD should establish comprehensive internal controls over its payroll process that encompass the full range of operations in the payroll function. Including procedures for all payroll functions would solidify MLSD's controls over this process.

The District's written payroll policies and procedures pertain to pay day schedules, salary deductions, and expense reimbursements. However, these policies do not represent comprehensive internal controls and do not appropriately document all payroll functions.

Documentation of Accounting Policies and Procedures (GFOA, 2002), recommends that every government document its policies and procedures. Documentation of polices have traditionally taken the form of a manual. The documentation should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Through careful design, a system of internal controls and procedures can help districts operate more efficiently and effectively. They also provide a reasonable level of assurance that the processes that each department is responsible for are adequately performed.

Formal procedures addressing payroll processes can effectively ensure that appropriate internal controls exist over MLSD's payroll operations. These practices also help promote accountability and accuracy within the payroll function and reduce the risk of possible error.

R2.14 MLSD should formally document its time and attendance processes to ensure accountability among personal while decreasing the risk of inaccurate reporting and potentially improper reporting. The policies and procedures should be communicated to District employees to promote consistency, and be reviewed on an annual basis to ensure that the appropriate controls are in place.

The District's time and attendance procedures meet the majority of best practices; however, these processes are not documented in a Board approved policy and procedures manual.

According to the United States Government Accountability Office (GAO) [formerly know as the General Accounting Office]: *Maintaining Effective Controls over Employees*

Time and Attendance Reporting, (2003), time and attendance should have a structured flow with clearly written and communicated policies and procedures setting fourth the responsibilities of employees, timekeepers, supervisors, and others regarding recording, examining, approving, and reporting of time and attendance. The following are some examples of policies and procedures that should be documented and communicated to employees:

- **Supervisory Approval**: The approval process should include supervisor's signature verifying the time and attendance of each employee based upon an aggregated schedule. Since MLSD operated on the exception basis, this approval process would be verifying leave usage rather than actual time worked.

- **Authorizing Employees' Work Schedules**: Employees' work schedules should be approved by the supervisor or the official most knowledgeable of the employees' responsibilities.

- **Approval Leave**: Approval of leave should be made by the employees' supervisor, or other designated approving official, before the leave is taken.

- **Adjustment or Corrections after the Time and Attendance Ends**: Adjustment or corrections required because of changes after information was approved should be processed promptly and be traceable to the pay period for which the corrections apply.

Internal controls over the accounting of time and attendance helps to provide an environment which can be monitored and evaluated. The documented and formal processes help promote accountability and accuracy of leave information and reporting, while reducing the risk of possible error or abuse of leave.

Payroll

R2.15 MLSD should approach bargaining unit representatives and request a memorandum of understanding requiring mandatory direct deposit and electronic pay stubs for all employees and long-term substitute teachers, regardless of hire date. By expanding the use of these practices, the District could reduce the supplies and materials costs associated with producing paper pay checks and stubs while improving the efficiency of operations in the Treasurer's Office. In addition, employees would benefit from ease of access to historical pay stub information.[6]

[6] A financial savings was not calculated for this recommendation.

MLSD has negotiated mandatory direct deposit for certificated and classified employees hired after July 1, 1999. Employees hired before that date are not required to participate. The use of electronic pay stubs is not specifically addressed in the District's bargaining unit agreements. However, the District has begun issuing electronic pay stubs on a voluntary basis. Based on a July 2007 sample of payroll transactions, the District issued approximately 176 checks, of which 133 (or 76 percent) were direct deposited. In addition, 35 employees (or 19 percent) received electronic pay stubs. According to the Treasurer, direct deposit and the use of electronic pay stubs has saved time by reducing the time required to stuff envelopes and print checks. The electronic payroll system has also saved the District the cost of paper, envelopes, and stamps.

According to the National Automated Clearing House Association/Electronic Payment Association, direct deposit can be beneficial to both the organization and the employees. Furthermore, the Electronic Payment Association states that employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits as electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits as he or she can easily access their pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to third party, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Computer access for bus drivers and custodians may create a logistical problem; however, the MLSD could issue email addresses to these employees and allow these employees access to the approximately 855 computers within the District. The District could address this issue by establishing a centralized computer station during the summer months for employees to access their electronic stub or send the pay stubs to private email accounts. Furthermore, by issuing email accounts, MLSD could use this as a form of communications to District employees.

Forecast Assumptions

R2.16 MLSD should revise and fully document its methodology for the major line-items in its five-year forecast. The District's forecast methodology should take into account historical trends and include the impact of any known changes in the economy, legislation, educational programs, and District operations. Most importantly, the District's methodology and assumptions should support and explain the basis for its projections. Sufficiently detailed supporting documentation will also allow MLSD to more easily explain forecast adjustments when circumstances or expectations

change, make more accurate and timely projections, as well as better plan educational programs and operations to meet specific District goals.

Major line items in MLSD's May 2007 five-year forecast, including State funding, other revenue, salaries and wages, employee retirement and insurance benefits, purchased services, supplies and materials, and capital outlay, were evaluated as a component of this audit. Adjustments to the District's projections were made based on accepted methodologies, historical trends, and other information available at the time of the audit. The impact of these forecast adjustments are shown in **Table 2-4.** The paragraphs that follow explain the forecast line items assessed and details of the methodologies used to develop revised projections can be found in **Appendix 2-A**.

State Funding (Unrestricted and Restricted Grant-in-Aids)

State Funding is comprised of unrestricted and restricted grants-in-aid received from the State through the State Foundation Program. The funding levels are established by the State legislature and the program is administered by the Ohio Department of Education (ODE). The updated projections for State funding were based on a methodology that includes details regarding Average Daily Membership (ADM) projections, State foundation levels, recognized valuation, special educational weighted amounts, career tech / adult education, bus purchase, and other categorical items. These items were based on historical trends and known factors. Although State funding amounts can not be projected with absolute certainty, detailed assumptions will allow Board members and administrators to plan based on expected funding levels and identify causes if revenues do not materialize as expected.

Other Revenue

Other Revenue consists of items such as tuition and other payments from school districts, other revenue for education provided by the District, transportation fees, earnings on investments, fees for classroom materials, miscellaneous receipts from local sources, and any other revenue sources. The revised projections included assumptions and projections for open enrollment, interest on investments, revenue from rentals, and other miscellaneous sources of revenue. These items were based on historical trends and any known factors.

Personal Services (Salaries and Wages)

Personal Services consist of employee wages, substitute costs, supplemental contracts, severance pay, and overtime costs. Personal Services increased in FY 2005-06 because of salary schedule step increases and negotiated wage increases for both classified and certificated employees. Costs decreased in FY 2006-07 because the District did not fill vacant positions and more closely monitored expenditures such as overtime.

The revised projections for Personal Services are projected on a per employee basis, similar to the District's FY 2006-07 methodology. Future projections also include a 3 percent increase for certificated staff and a $0.50 per hour increase for the classified staff based on the most recent negotiated agreements. The revised projections also include longevity pay increases for each bargaining unit based on the current certificated and classified salary and step schedule for each employee. As part of the MLSD's recovery proposal, the District does not plan on filling positions anticipated to be vacant due to retirements in FY 2008-09. However, since MLSD's teacher to student ratio is already below the peer average (see **human resources**), the revised projections include filling these vacant positions.

Employees' Retirement / Insurance Benefits (ERIB)

ERIB includes the cost of employee health, dental, vision, and life insurance; retirement contributions; Medicare costs; and workers compensation premiums. The revised projections for ERIB include anticipated retirement amounts for the certificated and classified staff based on the revised projections for Personal Services. Insurance benefits were also recalculated to include a 2.5 percent in health insurance premiums in FY 2007-08 and a 5 percent annual increase through the remainder of forecasted period.

Purchased Services

The Purchased Service category accounts for items such as utilities (electricity, gas, water, and telephone), property insurance, open enrollment payments, leases, repairs and maintenance, postage, legal fees, and staff development. Purchased Services increased by an average 9.1 percent from FY 2003-04 through FY 2006-07. The largest increase occurred in FY 2005-06 and can be attributed to increased open enrollment payments to other districts and increases in costs for professional and technical services for the construction of athletic and service complexes.

Line items within Purchased Services were projected using historical trends, known changes, and other cost drivers. For example, electricity increased by an average of 5.6 percent from FY 2003-04 through FY 2006-07. Therefore, a 5.6 percent increase was applied to each fiscal year of the forecast starting using FY 2006-07 actual expenditures as a base.

Supplies and Materials

The Supplies and Materials category includes items such as general supplies, textbooks, library books, and supplies and materials related to the operation, maintenance, and repair of plant, equipment, and motor vehicles. MLSD spent $580,579 and $302,085 from general operating funds on supplies and materials in FY 2005-06 and FY 2006-07, respectively. In FY 2006-07, MLSD shifted approximately $41,000 of operational maintenance repair expenditures from the General Fund to the Classroom Facilities Maintenance Fund.

The revised projections are based on historical changes on a per object basis and known factors, such as cost shifting expenditures from the General Fund to the School Facilities Maintenance Fund. Furthermore, forecasting by expenditure object would increase the level of detail and help ensure more accurate projections (see **R2.2**). Ideally, educational and operational goals would also be considered when projecting such items as textbooks and operational and maintenance repairs. The District should also consider linking historical expenditures per student, on such items as general supplies and library books and apply those spending rates to projected enrollment.

Capital Outlay

The Capital Outlay category includes expenditures for the acquisition of, or additions to fixed assets. Included are expenditures for land or existing buildings; improvements of grounds; construction of buildings; additions to buildings; remolding of buildings; and new and replacement equipment, furnishings, and vehicles. The District has spent significantly more in capital outlay over the past two fiscal years due to the construction and outfitting of three athletic facilities and two service buildings. MLSD spent $1,739,011 out of the General Fund on capital outlay in FY 2005-06 and $1,464,377 in FY 2006-07.

Since the MLSD has not implemented a capital improvement plan (see **R4.7** in **facilities**), the projection for FY 2007-08 assumes a return to historical spending levels prior to the construction project. The remaining forecasted period includes a 3 percent increase over the prior year's projections. Once the District has implemented a capital improvement plan, the projections should be updated and be linked with the costs identified within the plan.

Advances-Out

Advances-Out represents cash advanced to another fund under the assumption that the amount will be repaid from the receiving fund's anticipated future revenue. Often districts do not receive grant-related funds before the expenditures have to be made and therefore find it necessary to advance funds from the General Fund. When the reimbursement does not occur in the same fiscal year as the advance, it impacts the General Fund balance. MLSD had $27,450 in advances in FY 2005-06 to the Food Service Fund, with repayment occurring in FY 2006-07. In FY 2006-07, the District advanced $155,200 to the Food Service Fund, with repayment to the General Fund occurring in the same fiscal year. While this situation makes it difficult to budget for the impact of advances, MLSD should not anticipate a continuing need to advance funds to the food service operation during the five-year forecast. Recommendations made in **food service** should allow the District's food service operation to become a self-sufficient operation.

Table 2-4 shows the net impact of the auditor's revised projections on each line item and the five-year forecast ending balance when compared with the District's May 2007 projections.

Table 2–4: Net Impact of Revised Five-Year Forecast Projections

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue					
Unrestricted Grant-In-Aids	$32,717	$200,378	$244,313	$360,362	$521,033
Restricted Grants-In-Aids	$12,659	$35,062	$64,418	$96,133	$129,348
Other Revenue	$64,312	$31,435	$49,401	$79,427	$109,256
Sub-Total Net Impact Revenues	**$109,688**	**$266,875**	**$358,132**	**$535,922**	**$759,637**
Expenditures					
Personnel Services	($100,222)	($53,472)	($45,108)	($33,998)	($33,336)
Employees' Retirement / Insurance Benefits	$15,696	$19,071	$89,190	$117,295	$124,693
Purchased Services	$122,712	$165,564	$226,447	$291,532	$390,178
Supplies and Materials	$131,441	$132,237	$116,767	$120,825	$112,806
Capital Outlay	$188,083	$147,803	$183,573	$170,830	$112,705
Advance-Out	$0	$0	$0	$0	$0
Sub-Total Net Impact Expenditures	**$357,710**	**$411,203**	**$570,869**	**$666,484**	**$707,046**
Total Net Impact	**($248,022)**	**($144,328)**	**($212,737)**	**($130,562)**	**$52,591**

Source: MLSD and AOS
[1] Change in revenue minus change in expenditures equals net impact on fund balance.

Table 2-4 shows that the revised projections would negatively impact the forecasted ending fund balance from FY 2007-08 through FY 2010-11, with a cumulative effect of $683,058.

R2.17 MLSD should implement the recommendations contained in the performance audit to help offset projected deficits and allow the District to maintain a positive year-end balance through FY 2011-12. In addition, MLSD should update its five-year forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.

By revising its assumptions and implementing the performance audit recommendations, including those subject to negotiation, MLSD should be able to maintain a positive fund balance through FY 2011-12. **Table 2-5** demonstrates the affect on the five-year forecast line items and the ending fund balances, assuming the forecast adjustments are made (see **R2.16**) and all recommendations contained in this audit are implemented. **Table 2-5** has also been updated to show FY 2006-07 actual revenue and expenditures. Due to the timing of the audit, **Table 2-5** used the District's revised projections based on its October 31, 2007 forecast for those line items which were not assessed by the auditor.

Table 2-5: Minford Local School District Five-Year Forecast (in 000s)

	Actual				Forecasted			
	FY 2004-05	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**
Revenue:								
General Property Tax	$1,309	$1,404	$1,406	$1,456	$1,485	$1,522	$1,629	$1,670
Tangible Personal Tax	$37	$37	$20	$16	$8	$0	$0	$0
Unrestricted Grants-in-Aid	$8,665	$8,605	$8,933	$9,375	$9,778	$10,081	$10,463	$10,896
Restricted Grants-in-Aid	$526	$536	$642	$617	$647	$678	$711	$746
Property Tax Allocation	$199	$217	$229	$249	$237	$238	$239	$240
All Other Revenues	$1,396	$1,493	$1,521	$2,015	$1,562	$1,592	$1,623	$1,656
Total Revenues	$12,134	$12,294	$12,753	$13,731	$13,720	$14,113	$14,667	$15,210
Other Financing Source:								
Proceeds Sale of Notes	$0	$2,300	$0	$0	$0	$0	$0	$0
Operating Transfers-In	$77	$238	$6	$0	$0	$0	$0	$0
Advances-In	$0	$0	$182	$0	$0	$0	$0	$0
All Other Financial Sources	$181	$8	$12	$9	$5	$4	$9	$9
Total Other Financing Sources	$258	$2,546	$201	$9	$5	$4	$9	$9
Total Revenues and Other Financing Sources	**$12,393**	**$14,841**	**$12,955**	**$13,740**	**$13,725**	**$14,118**	**$14,677**	**$15,220**
Expenditures:								
Personal Services	$6,340	$6,909	$6,789	$6,716	$7,013	$7,305	$7,610	$7,916
Employees' Retirement/Insurance Benefits	$2,474	$2,466	$2,775	$2,692	$2,816	$2,942	$3,075	$3,211
Purchased Services	$1,588	$2,160	$1,990	$2,082	$2,179	$2,280	$2,386	$2,497
Supplies and Materials	$618	$580	$384	$476	$467	$464	$461	$458
Capital Outlay	$317	$1,739	$1,464	$385	$396	$408	$420	$433
Debt Service: Principle – Other	$72	$164	$238	$196	$205	$215	$225	$236
Debt Service: Interest and Fiscal Charges	$4	$65	$101	$92	$82	$72	$61	$51
Other Objects	$521	$635	$556	$697	$687	$689	$690	$692
Total Expenditures	$11,937	$14,721	$14,300	$13,337	$13,849	$14,378	$14,932	$15,497
Other Financing Uses:								$0
Operational Transfers-Out	$95	$305	$6	$0	$0	$0	$0	$0
Advances-Out	$0	$27	$153	$0	$0	$0	$0	$0
Total Other Uses	$95	$332	$160	$0	$0	$0	$0	$0
Total Expenditures and Other Financing Uses	**$12,033**	**$15,053**	**$14,461**	**$13,337**	**$13,849**	**$14,378**	**$14,932**	**$15,497**
Performance Audit Recommendations	***$0***	***$0***	***$0***	$71	$133	$182	$227	$217
Net Result of Operations	**$359**	**($212)**	**($1,505)**	**$473**	**$9**	**($78)**	**($28)**	**($60)**
Balance July 1	$1,502	$1,862	$1,649	$144,	$618	$627	$549	$520
Cash Balance June 30	$1,862	$1,649	$144	$618	$627	$549	$520	$460
Estimated Encumbrances June 30	$682	$1,261	$209	$255	$255	$255	$255	$255
Bus Replacement Reserve	$0	$0	$21	$42	$64	$85	$34	$0
Fund Balance June 30 for Certification of Appropriations	**$1,179**	**$388**	**($86)**	$320	$308	$209	$231	$205

Source: MLSD and AOS
Note: Numbers may vary due to rounding

Table 2-6 summarizes the performance audit recommendations reflected in the revised five-year forecast presented in **Table 2-5**. Recommendations are divided into two categories, those not subject to negotiation and those that are.

Table 2-6: Summary of Performance Audit Recommendations

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Not Subject to Negotiations					
R3.2 Reduce Health Premiums to SERB State Average	$0	$56,000	$59,000	$62,000	$65,000
R4.4 Energy conservation program	$5,000	$11,000	$12,000	$12,000	$13,000
R5.3 Reduce Active Buses by Three	$0	$51,000	$52,000	$54,000	$55,000
R6.2 Use cost allocation to account for all expenses of the food service operation.	$65,000	$68,000	$70,000	$73,000	$75,000
Sub Total Cost Savings from Performance Audit Not Subject to Negotiation	***$70,000***	***$186,000***	***$193,000***	***$201,000***	***$208,000***
Subject to Negotiation					
R3.3 Increase Employee Health Share to 10 Percent	$0	$0	$44,000	$65,000	$69,000
R3.5 Eliminate Classified Employee Calamity Days	$0	$0	$0	$18,000	$19,000
Sub Total Cost Savings from Performance Audit Subject to Negotiation	***$0***	***$0***	***$44,000***	***$83,000***	***$88,000***
Total Cost savings form Performance Audit Recommendations	**$70,000**	**$186,000**	**$237,000**	**$284,000**	**$296,000**

Source: Performance audit recommendations
Note: Total savings reported in the revised forecast may vary due to rounding.

Table 2-7 summarizes the implementation costs associated with the recommendations contained within the performance audit. Each cost estimate is dependent upon MLSD's decision to implement the associated recommendation and the timing of the implementation.

Table 2-7: Implementation Costs

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
R4.1 Hire one additional maintenance FTE	$51,000	$53,000	$55,000	$58,000
R4.6 Purchase Work Order Tracking System	$3,000	$3,000	$3,000	$3,000
R5.5 Replace buses	$0	$0	$0	$19,000
Total Implementation Cost from Performance Audit Recommendations	**$54,00**	**$56,000**	**$58,000**	**$80,00**

Source: Performance audit recommendations

Appendix 2-A: Detailed Assumptions for the Revised Projections

State Funding (Unrestricted and Restricted Grant-in-Aids)

MLSD should consider developing updated projections for State Funding based on a methodology with detailed assumptions similar to what is described below.

- **Average Daily Membership (ADM)**: ADM was projected for the forecasted period using historical trends from FY 2003-04 through FY 2006-07. It was assumed that the MLSD's ADM would increase at a rate of approximately 0.4 percent per year during the forecast period.

- **State Foundation**: The State Foundation amounts per ADM for FY 2007-08 and FY 2008-09 are based upon Amended Substitute House Bill (HB) 119, which increased the amount 3 percent per year over the prior year. The remaining forecasted years also include a 3 percent increase over the prior year based on historical trends.

- **Adjusted Recognized Valuation**: Valuation losses caused by Amended Substitute House Bill (HB) 66 were considered in the revised projections. In addition, a 3 percent increase per year for new construction and property value reappraisals and updates was included based upon historical changes in valuation amounts.

- **Special Educational Weighted Amounts**: From FY 2002-03 through FY 2006-07, special educational weighted amounts increased by an average of 11.6 percent annually. However, the past two fiscal years have shown a slight decrease of 0.1 percent; therefore, a more conservative assumption of a 10 percent increase each year was assumed.

- **Career Tech/Adult Education**: Career tech/adult education funding has experienced significant fluctuations over recent years. However, HB 119 specifies a 2 percent increase FY 2006-07 and FY 2007-08; therefore, a 2 percent average increase was applied over the forecasted period.

- **Bus Purchase**: HB 119 freezes the amount available for bus purchases. Therefore, the revised projections include approximately $21,000 for bus purchases each year based on FY 2006-07 funding. Since this money is restricted, the forecast also reserves these dollars until needed (see **R5.5** in **transportation**).

- **Other Categorical Items** The majority of the remaining line items associated with restricted and unrestricted grants-in-aid were projected based on historical trends from FY 2002-03 through FY 2006-07 and any known factors or changes caused by the last two State budget bills (HB 66 and HB 119).

Other Revenue

MLSD should consider developing updated projections for Other Revenue based on major receipt codes and with detailed assumptions similar to what is described below.

- **Open Enrollment:** Open enrollment revenue increased 1.5 percent from FY 2003-04 through FY 2006-07. Therefore, a 1.5 percent increase was applied through the forecasted period. However, the amount of revenue will vary depending upon the number of students who open-enroll into the District. The District should closely monitor the number of students who open enroll and adjust the projection annually when updated information is available.

- **Interest on Investments:** The interest earned on investments has fluctuated significantly from FY 2003-04 through FY 2006-07, ranging from a 92.8 percent increase to a 50.0 percent decrease. Because the interest earned on investments can be difficult to predict, the FY 2006-07 interest ($67,675) was held constant for each year of the forecasted period.

- **Rentals:** The District has experienced an average increase in rental revenue of approximately 38.5 percent from FY 2004-05 through FY 2006-07. Assuming a 38.5 percent increase each year was considered overly optimistic, so a conservative assumption of $6,785 in rental revenue based on FY 2006-07 was carried through the forecasted period. If the District establishes plans that would materially increase or decrease rental revenue, it should update its forecast projections accordingly.

- **Contributions and Donations from Private Sources:** The District received approximately $225,000 in donations in FY 2003-04, nothing in FY 2004-05 and FY 2005-06, and $51,275 in FY 2006-07. Because this is a very unpredictable type of revenue, there are no assumed donations in the revised projections during the forecast period. In the event that the District receives commitments for contributions or donations, it should adjust its projections accordingly.

- **Other Miscellaneous Sources:** The District's miscellaneous revenue increased by an average of 24.2 percent from FY 2003-04 through FY 2006-07. To apply an average increase of 24.2 percent through the forecasted period, the District would be assuming $234,128 in collections by FY 2011-12, almost three times the amount received in FY

2006-07. Therefore, a conservative 10 percent increase per year over FY 2006-07 was included through the forecasted period.

- **FCC License:** The District owns a Federal Communication Commission (FCC) license and has negotiated a long-term "De Facto" transfer lease agreement with Nextel Spectrum Acquisition Corporation. Once the District renews its FCC license, the District will receive an initial payment of $500,000 and $3,000 a month for the next five years. The revised forecast includes receiving the $500,000 up-front payment and $3,000 a month starting in January of FY 2007-08. The remaining forecasted period includes payments of $36,000 a year per the agreement.

Personal Services (Salaries and Wages)

MLSD should consider developing updated projections for Personal Services and detailing its assumptions in a manner similar to what is described below.

- **Certificated Salaries:** Certificated salaries (including building principles, the school psychologist, and the superintendent) were projected for FY 2007-08 by summing the employees' current salaries based on payroll information received from the District. For FY 2008-09, a 3 percent increase was added to the base salary of each employee, which is consistent with the current negotiated agreement. The 3 percent increase was also applied to FY 2009-10 through FY 2011-12 to reflect historical increases. In addition, annual salary longevity (or step) increases were added for each employee through the forecast. The revised projections also include salary increases for those employees who are required to or could earn their Master's degrees as part of their continuing education. Of the approximately 94 teachers, 22 could receive their Master's degree during the forecasted period, which would increase their salaries by an average of 3.8 percent. Therefore, 3.8 percent was added to the average salary of the 22 eligible employees. The revised projections do not take into account the impact of employee retirements. Employee retirements can reduce total salary and wages depending on severance pay and the costs of hiring replacement staff. The District should closely monitor retirements and staff replacement plans to gage the impact and then adjust its forecast.

- **Classified Salaries**: Classified salaries (including secretaries and the Treasurer's Office staff) were projected for FY 2007-08 by summing the employees' current salaries based on payroll information received from the District. For FY 2008-09 and FY 2009-10, a $0.50 per hour increase was added to the base salary amount for each classification which is consistent with the current negotiated agreement. The $0.50 per hour increase was also applied to the remaining years of the forecast based on historical trends. The revised projections also include longevity (or steps) increases based on the years of service for each employee.

- **Other**: The other items included in personal services include supplemental contracts, employee leave benefits, payments for calamity days, termination payments, overtime, compensation of Board members, and wages for student workers. MLSD expenditures for these items decreased by over 50 percent from FY 2003-04 to FY 2006-07 due to its financial situation and proactive steps made to reduce the potential deficit. While the District has spent significantly less in recent years, it is not reasonable to assume that these line items will continue to decrease over the forecasted period. The revised forecast assumes the District will gradually increase spending to level more reflective of historical trends, therefore a 10 percent increase over FY 2006-07 was applied to each year of the forecast. The District should monitor these items and adjust the projections accordingly in the event it spends less or more on a particular item.

Employees' Retirement / Insurance Benefits (ERIB)

MLSD should consider developing updated projections for ERIB based on the methodology and with detailed assumptions similar to what is described below.

- **Retirement – Certificated**: The FY 2006-07 certificated retirement as a percent of total salaries equaled approximately 15 percent. Therefore, 15 percent was applied to the revised salary projections through the forecast period to determine the retirement amount for certificated employees.

- **Retirement – Non-Certificated**: The non-certificated retirement as a percent of total salaries equaled approximately 3.8 percent in FY 2006-07. Therefore, this percentage was applied to the revised salary projections through the forecasted period.

- **Insurance Benefits for Certificated and Non-Certificated Employees**: The cost savings from the reductions in staff, which took effect in FY 2007-08 were reduced from FY 2006-07 expenditures for life, dental, hospitalization, and vision insurance. The revised health insurance was then increased by 2.5 percent in FY 2007-08 for both certificated and classified employees. Although the District's insurance premiums did not increase at the start of FY 2007-08, the Scioto County Insurance Cooperative are expected to review insurance premiums in January 2008, with a potential increase of up to 5 percent. An additional 5 percent per year was added to the health insurance cost through the forecasted period to account for this increase. MLSD should closely monitor the health insurance premiums and adjust the projection accordingly in the event they increase or decrease by more than the 5 percent.

  The District experienced a consistent 3 percent increase in life insurance for both certificated and classified employees from FY 2003-04 to FY 2006-07. Therefore, a 3 percent increase is included in each year of the forecast period. The certificated employees dental insurance increased by an average 0.4 percent per year, while the classified dental insurance increased by an average 2.1 percent from FY 2003-04 through FY 2006-07. Therefore, the respective percentage increases were included through the forecasted period. Vision insurance increased for the certificated employees by an average of 0.9 percent, while the classified employees' vision insurance increased by an average 1.2 percent per year from FY 2003-04 through FY 2006-07 and all other insurance benefits increased by an average 8.5 percent for the certificated staff and 3.5 percent for the classified staff. These increases were also included through the forecasted period.

- **Workers and Unemployment Compensation**: Workers compensation represented approximately 0.33 percent of FY 2006-07 salaries, while unemployment compensation equaled approximately .0025 percent. These percentages were applied to the revised salary projections.

Purchased Services

MLSD should consider developing updated projections for Purchased Services based on the methodology and with detailed assumptions similar to what is described below.

- **Professional and Technical Services (PTS)**: PTS has increased by an average of 73.1 percent from FY 2003-04 through FY 2006-07, although the District expenditures increased by more than $236,104 from FY 2004-05 to FY 2005-06 and decreased by $207,185 in FY 2006-07. The majority of the expenses in FY 2005-06 were related to the construction of the new athletic and service buildings. Since this makes it difficult to project PTS on historical trends, the revised projections include an inflationary 3.0 percent increase per year starting with FY 2006-07 expenditures.

- **Property Services (PS)**: From FY 2003-04 through FY 2006-07, PS decreased by an average of 6.7 percent. This decrease can be contributed to cost shifting expenses from the General Fund to the Classroom Facilities Maintenance Fund and the District closely monitoring expenditures due to its financial situation. Therefore, similar to PTS, a 3.0 percent inflationary increase was calculated through the forecasted period based on FY 2006-07 expenses.

- **Travel Mileage / Meeting Expenses (TMME)**: TMME decreased by an average of 14.4 percent from FY 2003-04 through FY 2006-07. The majority of this decrease can be contributed to the discretionary nature of this expense and the District's effort to control expenses. To continue this trend, MLSD would be spending less than $13,000 by FY 2011-12 which does not seem realistic. Therefore, a 3.0 percent inflationary increase was calculated thought the forecasted period based on FY 2006-07 expenses.

- **Communications**: Since MLSD has some control over spending on communication, a 3.0 percent increase was included throughout the forecasted period, starting with FY 2006-07 expenses. This percentage increase is smaller than historical trends, so the District should closely monitor this item and adjust the projections in the event the actual expense is greater than the percentage applied.

- **Electricity**: Electricity has increased by an average 5.6 percent from FY 2003-04 through FY 2006-07. Therefore, a 5.6 percent increase was applied to each year of the forecasted period starting with FY 2006-07 expenses.

- **Water & Sewer**: Water and sewer decreased by an average of 1.5 percent from FY 2003-04 through FY 2006-07. Since it is not reasonable to assume a continual decrease of 1.5 percent, a 3.0 percent increase was included throughout the forecasted period, starting with FY 2006-07 expenses. Since this percentage increase is not in line with historical trends, the District should closely monitor this item and adjust the projections in the event the actual expense is smaller than the percentage applied.

- **Gas & Oil**: The District's natural gas cost increased by an average of 1.8 percent per year while oil increased by an average of 3.6 percent from FY 2003-04 through FY 2006-07. Therefore, these percent increases were applied to each year of the forecasted period, starting with FY 2006-07 expenses.

- **Tuition**: Tuition increased by an average of 11.9 percent from FY 2003-04 through FY 2006-07. However, the majority of this increase occurred in FY 2005-06, with an increase of 26.9 percent. Excluding FY 2005-06 percentage increase, historical increases were about 5.0 percent which was included in each year of the projections. The District should closely monitor this item and adjust the projections in the event the actual expense is smaller or greater than the percentage applied.

Supplies and Materials

The revised Supplies and Materials projections include several factors, which are as follows:

- Due to its financial situation, MLSD made proactive reductions in expenditures related to general supplies, textbooks, library books, and newspapers in FY 2006-07. Although FY 2006-07 expenditures decreased significantly, it is reasonable to assume that spending levels will need to increase to sustain educational programs and maintain adequate inventory levels. Therefore, the revised projections link average historical expenditures per student to enrollment projections.

- Expenditures on supplies and materials for the operation, maintenance, and repair of motor vehicles have increased by an average of 11.9 percent per year over the past three fiscal years. Due to the discretionary nature of this line item and the MLSD's financial situation, this item decreased by approximately 18.3 percent in FY 2006-07. Therefore, the revised projection excludes FY 2006-07 expenditures, and uses the average historical expenditures per vehicle. The historical average is then multiplied by the fleet size for each fiscal year through the forecasted period (see **R5.3** in **transportation** for savings from reducing the District's bus fleet). This methodology assumes that the District's fleet will remain at about 30 vehicles,

- Even though MLSD shifted expenditures from the General Fund to the Classroom Facilities Maintenance Fund in FY 2006-07, expenditures on supplies and materials for operation, maintenance, and repair of plant and equipment were still approximately $21,000 less that the average of FY 2003-04 through FY 2006-07. Therefore, the revised projection increases FY 2007-08 to the average spending levels, minus the cost shifting to the Classroom Facilities Maintenance Fund. This increases General Fund obligations by approximately $21,000. For the remainder of the forecasted period, an inflationary 3 percent was included in the revised projections.

- FY 2006-07 was the first year MLSD expended money in the other supply and material category, (approximately $5,600). Therefore, the revised projections include a 3.0 percent increase over the forecasted period.

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HUMAN RESOURCES

Human Resources

Background

This section focuses on the Minford Local School District (MLSD or the District) human resources (HR) functions including staffing levels, compensation, employee benefits, negotiated agreements, and HR management. The purpose of this section is to analyze how the District performs HR activities, in order to develop recommendations to improve efficiency and business practices.[1] Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. The District's HR functions have been evaluated against best practices, industry benchmarks, operational standards, the Ohio Administrative Code (OAC), the Ohio Revised Code (ORC), and selected peer districts.[2] Best practices and industry standards were drawn from sources including the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Henry J. Kaiser Family Foundation (Kaiser), the Ohio Education Association (OEA), and the State Employment Relations Board (SERB).

Organizational Structure and Function

MLSD does not have a department dedicated to performing HR functions. Instead, these activities are completed by the Superintendent, Treasurer, and Assistant Treasurer. The Superintendent conducts employee recruitment, negotiates union contracts, and maintains personnel files which include general information and employee evaluations. The Treasurer and Assistant Treasurer assist in negotiating union contracts, update fiscal reports and Education Management Information System (EMIS) information (in coordination with the high school guidance counselor), maintain files on the salary and benefits for each employee, and process payroll. The Superintendent and Treasurer jointly administer health insurance benefits.

Staffing

Due to MLSD's financial situation, the District reduced 1 full-time-equivalent (FTE) administrator, 1 FTE librarian, 7 FTE regular teachers, 1 FTE vocational teacher, and 1 FTE special education teacher at the end of fiscal year (FY) 2006-07. **Table 3-1** compares MLSD's FY 2006-07 staffing levels per 1,000 students, after the reductions, to the peer average for selected categories. Staffing in some categories may not match other report sections because

[1] See **Appendix 1-A** in the **executive summary** for a summary of the human resources audit objectives.

[2] The peers include: East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Indian Valley LSD (Tuscarawas County), Leipsic LSD (Putnam County), Loudonville-Perrysville Ex. Vil. (Ashland County), New London LSD (Huron County), New Riegel LSD (Seneca County), and Springfield LSD (Mahoning County).

employees are re-calculated for an eight-hour day (see **facilities**, **transportation**, and **food service** for additional staffing analyses in those operational areas).

Table 3-1: Comparison of FY 2006-07 Staffing per 1,000 Students Educated

	MLSD	Peer Average	Difference
Students Educated [1]	**1,535.0**	**1,199.4**	**335.6**
Administrators:	**4.6**	**5.6**	**(1.0)**
Site-Based Administrators	3.3	2.8	0.5
Central Administrators	1.3	2.8	(1.5)
Educational Staff:	**62.6**	**72.5**	**(9.9)**
Curriculum Specialist	0.7	0.1	0.6
Counselors	2.0	1.6	0.4
Librarian/Media	1.3	0.8	0.5
Remedial Specialist	3.9	2.6	1.3
Regular Teachers	45.0	48.8	(3.9)
Special Education Instructors	2.0	7.4	(5.4)
Vocational Teachers	0.7	2.5	(1.8)
ESP Teachers	3.3	5.1	(1.8)
Suppl. Spec. Educ. Teacher	3.9	1.3	2.6
Professional Staff:	**1.3**	**0.9**	**0.4**
Psychologists	0.7	0.1	0.6
Registered Nurses	0.7	0.1	0.6
Technical Staff:	**1.3**	**4.3**	**(3.0)**
Computer Support	0.7	0.4	0.2
Instructional Paraprofessionals	0.7	3	(2.4)
Office/Clerical Staff:	**6.5**	**10.4**	**(3.9)**
Clerical	4.6	5.8	(1.2)
Teaching Aide	1.3	3.0	(1.7)
All Other Office/Clerical Staff	0.7	1.6	(1.0)
Maintenance Workers	**2.0**	**2.1**	**(0.2)**
Custodians/Grounds Keepers	**5.5**	**5.5**	**(0.1)**
Bus Drivers	**11.1**	**9.6**	**1.5**
Food Service Workers	**6.9**	**8.4**	**(1.5)**
Total FTE Reported	**102.4**	**120.3**	**(18.0)**

Source: MLSD and peers FY 2006-07 EMIS data. Peer data has not been tested.
Note: Totals may vary due to rounding.
[1] The number of students educated was calculated by taking the percent of time students were enrolled less the time students attend joint vocational schools, education service centers, and post-secondary programs.

As shown in **Table 3-1**, MLSD's FTE per 1,000 students, as reported in EMIS, was below the peer average. For regular education teachers and educational service personnel (ESP), State minimum standards require school districts to have at least 1 FTE regular teacher per 25 students and 1 FTE ESP for every 200 students. Although the District is below the peers in regular teachers and ESP per 1,000 students, the District remains above State minimum standards by 22 FTE regular teachers and 5 FTE ESP. Although the District could potentially make additional reductions without dropping below the State minimum standards, additional staffing reductions in these categories could potentially have a negative impact on the educational goals of the District.

Salaries

Years of service, negotiated wage increases, step increases, and in some cases, the education level attained by the personnel within a category, all directly impact average salaries. Compared to the peers, MLSD's average salaries, with the exception of professional staff, bus drivers, and custodial staff, were higher. **Table 3-2** shows MLSD FY 2006-07 average salaries and salary per student in comparison to the peer average.

Table 3-2: Comparison of Average Salaries and Salary per Student

Classification	MLSD	Peer Average	Percent Difference	MLSD Salaries per Student	Peer Salaries per Student	Percent Difference
Administrators	$72,513	$65,891	10.0%	$334 [1]	$354	(5.5%)
Educational	$47,238	$45,178	4.6%	$2,958 [1]	$3,261	(9.3%)
Professional [2]	$44,978	$47,588	(5.4%)	$59	$49	19.1%
Technical [2]	$36,935	$19,486	89.5% [2]	$48	$100	(52.0%)
Office/Clerical	$26,965	$21,669	24.4%	$176	$207	(14.9%)
Maint./Mechanic	$40,137	$40,076	0.2%	$78	$76	3.4%
Bus Drivers	$14,812	$15,271	(3.0%)	$164	$147	11.7%
Custodians/Grounds	$28,349	$28,377	(0.1%)	$155	$171	(9.3%)
Food Service	$19,742	$14,318	37.9%	$144	$113	27.4%
Totals	$40,261	$37,404	7.6%	$4,121	$4,453	(7.5%)

Source: MLSD and peers FY 2006-07 EMIS reports. Peer data has not been tested.
Note 1: Totals may vary slightly from actual due to rounding. Not all EMIS personnel categories are shown.
Note 2: Comparing salaries on a per student basis sometimes identifies categories where there may be fewer staff but higher than average salaries as compared to the peers. In this instance, the average salary for the MLSD would look higher even though the District may spend less per student than the peers on that category.
[1] Based on total estimated total salaries after reductions are made.
[2] MLSD employs only two FTE in this category.

Although MLSD FY 2006-07 average salaries were higher than the peer average in some categories, the District has made staffing reductions which bought its' total salaries per student below the peer average. Categories in which MLSD is notably higher than the peer salaries per student are as follows:

- Professional Staff – While salaries per student are higher than the peers, MLSD only employs two FTE persons in this category.
- Bus Drivers – MLSD salaries per student for bus drivers was about 11.7 percent higher than the peer average (see **transportation**).
- Food Service Staff – Both the average salary and the salaries per student for food service workers were higher than the peer average (see **food service**).

Collective Bargaining Agreements

MLSD's certificated personnel are governed by a negotiated agreement between the Minford Local Board of Education (the Board) and the Minford Education Association (MEA), which is affiliated with the Ohio Education Association (OEA) and the National Education Association (NEA). The Minford Education Association is the sole and exclusive representation for the members of the bargaining unit.[3] The Superintendent; directors; supervisors; principals; assistant principals; Treasurer; assistant principals; and substitutes are excluded from the bargaining unit, and therefore, are not subject to the terms of the certificated agreement. The agreement took effect August 1, 2006 and is effective until July 31, 2009.

Classified personnel in MLSD are governed by a negotiated agreement between the Board and the Ohio Association of Public School Employees (OAPSE) and its Local Chapter #621. OAPSE and its Local Chapter #621 are the exclusive bargaining representatives for cooks, custodians, bus drivers, building and grounds keeper, teacher aides, secretaries, bus mechanics, and EMIS aide/secretary. The agreement was extended from August 1, 2007 through July 31, 2010.

During the performance audit, certain contractual and employment issues such as leave time; Board pick-up of retirement contributions; length of school year, work day and teaching time; employee contributions toward health insurance; and employee evaluations were assessed and compared against provisions of the Ohio Revised Code (ORC) and Ohio Administrative Code (OAC), as well as standard practices. Contractual issues that do not meet recommended or best practices can increase operating costs and are discussed in **R3.3**, **R3.4**, and **R3.5**.

[3] The MEA consists of all full-time and regular part-time certificated staff members including the following: talented and gifted coordinators; Chapter 1 coordinators; learning disability tutors regularly scheduled to work 15 hours or more per week; school nurses; athletic director/teachers; and community education director/teachers employed by the Board under regular teaching contracts.

Recommendations

R3.1 MLSD should develop a formal staffing plan to address current and future staffing needs. In doing so, MLSD should establish staffing allocations for administrative, certificated, and classified personnel. This will help ensure the District proactively addresses its staffing needs and complies with State and federal requirements. Likewise, the plan should illustrate how staffing and related costs impact the District's financial condition and overall mission.

MLSD does not have a formal staffing plan. Without a staffing plan, the District does not have a formal method of verifying that it is staffed in accordance with State laws and regulations, or determining if staffing levels are appropriate for its enrollment. According to the District, student needs defines the level of staffing it considers appropriate. Generally, principals check enrollment of regular and special needs students and the District tries to keep class sizes acceptable to the Board and the community. Due to the financial condition of the District, affordability has become the major driving factor in the staffing decision making process. The District has a defined process for reductions of force in both the certificated agreement and Board policy if it is ever needed.

The Society for Human Resource Management (SHRM) in *Strategic Staffing Plans* (June 2002) notes that high performing organizations use staffing plans and a system to monitor and control the cost of engaging human capital. Strategic staffing plans form an infrastructure to support effective decision-making in an organization. SHRM elaborated on the effect of strategic staffing plans on organizations in *Staffing Strategy Over the Business Cycle* (June 2005). In detailing how organizations may react to changes in the business cycle, SHRM noted that reductions in staffing to meet declining labor needs often did not result in anticipated savings for 12 to 18 months. As a result, staffing plans tied to strategic plans and organizational needs can help organizations better meet the constraints of their operating environments.

Tulsa Public Schools (TPS) in Tulsa, Oklahoma has established a recognized best practice staffing plan that incorporates state and federal regulations, workload measures, and industry benchmarks, as well as staffing levels determined by its administration. The plan outlines the allocation of regular and special education, administrative, other instructional, clerical, custodial, and food service staff. For example, food service staffing is determined using minimum target meals per labor hour calculations established by TPS. The plan bases custodial staffing levels on a calculation using the number of teachers, students, and rooms, and the total area of the buildings. The plan is used as a guide to determine staffing levels and allows TPS to ensure compliance as well as provide staffing numbers to efficiently meet its needs. Additionally, some Ohio schools have developed best practice staffing plans. For example, Lakota Local School District

(Butler County) has a staffing plan similar to TPS in that it guides staffing decisions using an assortment of variables and formulas.

In order to ensure sufficient and effective administrative, certificated, and classified staffing levels, the staffing plan should take into account state and federal regulations, industry benchmarks and enrollment to calculate projected staff levels. These formulas are used to help identify staff overages or shortages in each staffing category, and in some cases, the number of staff needed per building.

MLSD has not established a staffing plan and, as a result, faces an increased risk of being insufficiently or inefficiently staffed within its various operational areas, especially with the District's declining enrollment. By implementing a staffing plan and updating the plan on an annual basis, MLSD will be better prepared to make changes to staffing levels in response to its financial condition. As MLSD begins to proactively address its staffing needs, it will be able to make incremental changes rather than large-scale staffing reductions or additions.

R3.2 MLSD should apply recommended practices to reduce its health insurance premiums to be more in line with the State Employment Relations Board (SERB) average for districts in the Columbus Region. MLSD should consider modifying or re-designing its insurance plan in order to reduce its health insurance costs. The District should work with its consortium to determine why costs are high and how to modify its insurance plan to decrease premiums.

MLSD obtains insurance coverage from the Scioto County Insurance Cooperative Consortium (SCICC). The SCICC provides single and family coverage for classified, certificated and exempt employees. Although the District purchases health insurance through SCICC, its premiums are high in comparison to the various benchmarks. **Table 3-3** shows MLSD's FY 2006-07 health insurance premiums and employee contribution percentages.

Table 3-3: 2006-07 MLSD Health Insurance Premiums

Type of Coverage	Monthly Board Share	Monthly Employee Share	Employee Share Contribution %	Total Annual Board Cost
Certificated Single (28 plans)	$407.84	$35.46	**8%**	**$137,034**
Certificated Family (60 plans)	$1,072.72	$93.28	**8%**	**$772,358**
Classified Single (8 plans)	$398.97	$44.33	**10%**	**$38,301**
Classified Family (31 plans)	$1,107.70	$58.30	**5%**	**$412,064**
Total				**$1,359,756** [1]

Source: MLSD
Note: Totals may vary due to rounding.
[1] Total amount is prior to the District staffing reductions being implemented for FY 2007-08. The District reduced three employees enrolled in certificated single coverage and two employees enrolled in certificated family coverage. The total monthly Board cost after the reductions is $109,944 or $1,319,328 annually.

According to **Table 3-3**, the total insurance cost for MLSD was approximately $1.4 million annually or about $113,000 per month. Employee contribution rates vary between 5 and 10 percent depending on the type of coverage and collective bargaining unit. On average, the Board paid 92.8 percent of the total health insurance costs in FY 2006-07.

Table 3-4 illustrates MLSD monthly single and family premiums in comparison to the averages reported by the Henry J. Kaiser Family Foundation (Kaiser) and SERB. The similar sized districts include districts with an average daily membership between 1,000 and 2,499. The Columbus Region[4] includes districts located within the central region of the State and includes MLSD as well as other Scioto County districts.

Table 3-4: Health Insurance Premium Comparison

Source	Single Premiums	Difference from MLSD	Family Premiums	Difference from MLSD
MLSD	$443.30	*N/A*	$1,166.00	*N/A*
Kaiser National Average	$365.42	$77.88	$980.42	$185.58
SERB PPO State Average	**$396.08**	**$47.22**	**$1,042.89**	**$123.11**
Similar Size Districts	$416.89	$26.41	$1,043.89	$122.11
Columbus Region	$430.53	$12.77	$1,117.51	$48.49

Source: MLSD, Kaiser, and SERB.

As shown in **Table 3-4**, MLSD's insurance premiums are high compared to both the SERB preferred provider organization (PPO) State average and the Kaiser national average. MLSD's high cost for health insurance contributes to its projected deficits. There are several strategies MLSD should consider to reduce health insurance costs; such as, joining a consortium outside the District's region, finding a supplier offering lower rates, or changing its type of insurance plan, such as to a health maintenance organization (HMO). The following are potential areas that the District could consider altering in its current plan:

- Co-payments for physician visits;
- Co-insurance for physician visits (percentage paid);
- Multi-tier drug plan co-payments;
- Average annual deductible;
- Average cost for hospital visits;
- Average cost sharing for outpatient surgery; and
- Annual out-of-pocket maximums.

Table 3-5 shows the potential annual savings if MLSD was able to reduce its premium costs to the various benchmarks.

[4] SERB classifies MLSD, as well as other Scioto County districts, as a "Columbus Region" district and it is included in the calculation of the Columbus Region average.

Table 3-5: MLSD Savings Based on Benchmarks [1]

Source	Board Amount	Monthly Savings	Total Annual Savings	Total General Fund Savings [3]
MLSD	$109,944 [2]	*N/A*	*N/A*	*N/A*
Kaiser Foundation National Average	$92,224	$17,720	$212,638	$197,754
SERB PPO State Average	$98,323	$11,621	$139,449	$129,688
Similar Size Districts	$99,035	$10,910	$130,914	$121,750
Columbus Region	**$105,543**	**$4,401**	**$52,813**	**$49,116**

Source: MLSD, Kaiser, and SERB.
Note: Totals may vary due to rounding.
[1] Savings based on current negotiated employee contributions toward health insurance premiums.
[2] Amount is based on the number of employees after District proposed staffing reductions are implemented in FY 2007-08.
[3] Assumes 93 percent of employees are paid from the General Fund.

By reducing the amount the District pays in health insurance premiums, it will realize significant savings which will improve the District's financial condition. As shown in **Table 3-5**, savings to the General Fund are estimated to be between about $49,000 and $200,000 annually. In addition, District employees would benefit by paying less due to paying a percentage of a lower overall premium amount.

Financial Implication: By lowering premiums to the SERB average for the Columbus Region, the District could achieve annual savings in the General Fund of approximately $56,100 starting in FY 2008-09 based on recent increases in healthcare premiums. However; if this recommendation is implemented in conjunction with **R3.3**, the financial implication to the Board would be reduced because of higher employee contribution rates.

R3.3 MLSD should negotiate an increase to the employee contribution toward health insurance premiums to at least 10 percent for both classified and certificated employees. By negotiating a 10 percent employee contribution for both single and family insurance coverage, the employee contributions would be more in line with State-wide averages. Similarly, using a 10 percent employee contribution would equalize the employee share between classes of employees.

MLSD classified employees pay 10 percent of health insurance premiums for single coverage and 5 percent for family coverage; however, certificated employees pay 8 percent for either single or family coverage.

According to SERB, the employee portion of the premium cost for medical coverage averages 8.4 percent for single coverage and 10.4 percent for family coverage. Kaiser reported that, on average, employees contribute 14.5 percent for single plans and 24.8 percent for family coverage. **Table 3-6** shows District and employee costs assuming a 10 percent employee share.

Table 3-6: District and Employee Health Insurance Costs at 90/10[1]

Type of Coverage	Board Share	Employee Share	Total
Certificated Single (28 plans)	$11,171	$1,241	**$12,412**
Certificated Family (60 plans)	$62,964	$6,996	**$69,960**
Classified Single (8 plans)	$3,192	$355	**$3,547**
Classified Family (31 plans)	$32,531	$3,615	**$36,146**
Total	**$109,858** [2]	**$12,206**	**$122,064**

Source: MLSD
Note: Totals may vary due to rounding.
[1] The table assumes the District's share is 90 percent and its employees' share is 10 percent for both single and family health insurance coverage.
[2] Amount is prior to District staffing reductions implemented in FY 2007-08. The District reduced three employees enrolled in certificated single coverage and two employees enrolled in certificated family coverage. The total annual Board cost after the reductions is $106,563.

Because the employee contribution rates are lower than the SERB and Kaiser averages, the Board sustains higher costs for health insurance benefits. If the District is able to negotiate an increase in the employee share, increases to health insurance premiums will be tempered through a higher degree of cost sharing.

Financial Implication: Increasing employee cost sharing to 10 percent for all plan types would result in savings of about $44,000 in FY 2009-10 and $65,300 in FY 2010-11, if successfully negotiated into both of the District's collective bargaining agreement.

R3.4 MLSD should negotiate a phase-out of the 4 percent retirement pick-up that the Board pays for all employees covered by the collective bargaining agreements. Picking up the employee's share of retirement contributions is typically individually negotiated by top administrators. While paying a portion of all employees' retirement share is not disallowed under State law, it inflates the employee's total compensation and increases District compensation costs.

MLSD's certificated and classified agreements require the Board to pay 4 percent of the employees' contribution to the State Teachers Retirement System of Ohio (STRS) and School Employees Retirement System of Ohio (SERS). In FY 2006-07, this cost the District about $290,000, of which about $255,000 was paid from the General Fund. The Board's contribution reduces the amount that the employees must contribute to retirement to only 6 percent. Most classified and certificated employees in the State pay the full 10 percent into the retirement funds. MLSD's pick-up of retirement contributions elevates the employees' total compensation and average salaries are already at or above the peer average (see **Table 3-2**).

According to the SERS, current contribution rates into the employers' trust fund are 10 percent for the employee and 14 percent for the employer. The District negotiated the additional employee pick-up in return for staff agreeing to changes in their healthcare plans.

Picking up a portion of the employee's share of retirement contributions is an additional and unnecessary expense. By negotiating a phase-out of the retirement pick-up over a four-year period; MLSD has the potential to save $64,000 in the first year and up to $260,000 if the pick-up is completely phased out. In phasing out the additional retirement pick-up, districts are able to increase employee cost of living adjustments the same percentage as the decrease in additional pick-up and still save money over the phase-out period. This would allow MLSD to phase out the additional pick-up while giving District employees additional compensation for agreeing to phase out the pick-up. In order for employees to accept a reduction in retirement benefits, the Board likely will need to make concessions in terms of salary and wage increases. Because the reduced benefit costs may need to be offset by wage increases, no financial implication was assumed for this recommendation.

R3.5 MLSD should attempt to renegotiate provisions within its employee bargaining agreements that exceed industry standards and State minimums. These provisions are costly and successful renegotiations would allow MLSD to reduce personnel costs and, by extension, the District's projected financial deficits.

As a component of the performance audit, certain provisions within the MLSD certificated and classified agreements were compared to State minimum standards and best practices. The following areas in MLSD's certificated and classified contracts exceeded benchmark provisions:

Calamity Days: According to the District's classified agreement, all non-teaching employees are excused from work with pay when the schools are closed due to an epidemic or calamity. This provision gives all classified employees a full day of pay regardless of the District's need for employees to work all or part of the day. On average, the District has experienced about 3.5 calamity days per year.

Garaway Local School District's (Tuscarawas County) negotiated agreement states that when the Superintendent declares a calamity day, employees may be required to work to maintain the reasonable operation of schools. Employees required to work on a calamity day are paid their regular hourly rate plus that hourly rate (double time). Any employees who have reported to work before a calamity day has been declared and prior to the normal start of school are paid a minimum of one hour regular pay. Similarly, New London Local School District (Huron County) negotiated agreement requires twelve-month employees to report for duty for one-half of their scheduled shift with work time to be approved by their supervisor or the superintendent. Both of these examples increase management flexibility while compensating employees for the time they actually work.

Paid Lunch Break: MLSD's classified agreement also states that each seven to eight-hour employee's lunch break will be included in their working day. This provision compensates employees for time during which they do not perform work.

The New London Local School District negotiated agreement states that all employees during the regular work day shall be entitled to a thirty minute lunch period without pay, which does not constitute part of the normal work day, and is scheduled as nearly as possible at the midpoint of the work shift. Paying employees for time in which they do not work decreases productivity for the District.

Financial Implication: Assuming an average of 3.5 calamity days per year, MLSD could reduce its costs about $22,000 in FY 2010-11 ($18,000 from the General Fund and $4,000 from the Food Service Fund) by negotiating the calamity day provision out of its next classified employee collective bargaining agreement. It is assumed that if employees were not paid during lunch that their work day would be extended half an hour. This would increase employee productivity be not reduce the Board's costs.

R3.6 MLSD should conduct annual employee surveys to measure employee job satisfaction. The survey should address factors such as work environment, quality of supervision, safety, District-wide support, and opportunities for professional development. Climate surveys provide employees with a formal mechanism to provide feedback on various issues within the District.

The District does not conduct formal employee surveys to gauge the work climate or employee satisfaction, or to receive employee feedback. The District receives input from staff through Board meetings, emails to the Board, and direct feedback to administrators. Administrators and bargaining unit representatives meet on an as needed basis to address concerns or suggestions.

According to *Soliciting Employee Feedback: Getting Results* (Society for Human Resource Management, 2004), it is important to collect employee feedback and respond to employee needs, ideas, and suggestions in a timely manner. Collecting and using employee feedback increases retention rates, lowers absenteeism, improves productivity, improves customer service, and improves morale. Surveys are the most effective way to tap into the thoughts of the workplace and soliciting feedback should be a regular part of the HR function.

By conducting annual employee surveys, the District can ensure that it measures and acknowledges employee satisfaction on a regular basis. It is also a way to demonstrate management concern about the work environment. Surveys allow employees to give feedback and suggestions and provide District administrators with an open line of communication to garner suggestions for improvements. Surveys also enable the District to identify problems or unresolved issues so that appropriate actions can be taken.

R3.7 MLSD should develop guidelines and procedures to ensure that accurate staff information is prepared and reported to ODE through the Education Management Information System (EMIS). District staff that have responsibility for EMIS should attend training to ensure that they can appropriately and consistently use the definitions, procedures, and guidelines in the EMIS Manual. This would help ensure the accuracy of data entered and assist in accurate staffing assessments.

During a review of EMIS reports used for the performance audit, it was discovered that MLSD had double counted two counselors when entering information into EMIS. As a result, the District appeared to have five counselors instead of three. According to the Treasurer and Assistant Treasurer, this error resulted from supplemental contracts being coded as FTE counselors.

ODE developed and implemented EMIS to assist districts and the State in collecting and reporting student, staff, and program information. All districts are required to provide specific student, staff, and financial data to ODE through EMIS. Entering data correctly helps to ensure comparability between districts. The data entered into EMIS can be used by districts when making management decisions, including compliance with required staffing levels. Improperly entering employee classifications and FTE counts can cause a district to over- or under-report the actual number of employees and the hours they work.

MLSD should ensure that someone, independent of the data gathering process, reviews the information to ensure its accuracy as part of the EMIS guidelines and procedures it develops. Furthermore, MLSD should consistently use the definitions, procedures, and guidelines in the EMIS Manual, which is produced annually to assist school districts in entering information into EMIS. By incorrectly coding employees into EMIS, the District could have an inaccurate account of staffing levels. Being understaffed could have an impact on its educational goals, while being overstaffed could potentially be a financial detriment to the District.

R3.8 MLSD should consider the possibility of offering employees a retirement incentive to reduce long-term salary and benefit costs. In doing so, MLSD should follow Government Finance Officers Association (GFOA) recommendations for evaluating retirement incentives. Specifically, MLSD should establish goals for the incentive, perform a thorough cost analysis, estimate the budget impact, and develop an implementation plan to ensure that it effectively evaluates the costs and benefits of the incentive.

MLSD does not offer a retirement incentive (RI), nor has it evaluated the feasibility of doing so. According to MLSD records, it will have 18 employees eligible to retire after the 2007-08 school year. The District has averaged 3.2 retirees per year over the last 5 years.

Evaluating the Use of Early Retirement Incentives (GFOA, 2004) recommends that governments exercise extreme caution when considering early retirement incentives (ERI). Governments should take several actions prior to the decision to offer an ERI in terms of goal-setting, cost/benefit analysis, and budgetary analysis. Governments should also develop an implementation plan. The following is a brief description of what each of these actions should include:

- **Goal-Setting:** Governments should be explicit in setting documented goals for the ERI. Goals can be financial in nature, such as realizing permanent efficiencies in staffing or achieving budgetary objectives. ERIs can also be designed to achieve HR goals, such as creating vacancies that allow for additional promotion opportunities and allowing management to bring in new staff. Finally, ERI goals should not conflict with other retirement plan goals (e.g., plans to reduce turnover or increase retention).

- **Cost/Benefit Analysis:** In judging whether an ERI should be offered, governments should assess the potential costs and benefits of ERI proposals, and the cost/benefit analysis should be linked to the goals of the ERI. For example, if a government sets a financial goal of obtaining long-term staffing efficiencies, then an independent cost/benefit analysis should determine whether the ERI will actually bring about such staffing efficiencies.

- **Budgetary Considerations:** In order to develop accurate budgetary estimates for the ERI, it is necessary to estimate the incremental cost of the ERI, which will vary according to the level of employee participation. Any budgetary analysis should project multiple scenarios for employee participation levels.

- **Implementation Plan:** Governments should consider a communication plan to help employees understand the ERI in the context of overall retirement planning. It may be necessary to gain input from collective bargaining units. Governments should consider the impact upon service delivery after employees retire, with identification of critical personnel whose services must be maintained. The duration of the window should take into account the ability of retirement staff to manage retirement application workloads, among other factors. Lastly, performance measures should be used to ensure ERI goals are met.

One scenario for a RI is shown below. MLSD should consider establishing goals for a RI and then follow GFOA recommendations to perform its own assessment.

- Savings in wages for retiring employee: $80,939;
- Costs for severance and $30,000 RI for retiring employee: ($14,727);[5]
- Cost for wages for new hire: ($37,610);[6]
- Estimated cost of benefits for new hire: ($16,156); and
- Average cost savings: $12,446.

Although the District will have employees retire regardless of whether a RI is offered, under the above scenario, it would need seven employees to accept the RI in order to for the savings to match or exceed the costs. For every additional employee who would accept the RI, the District would save approximately $56,555.

A financial implication for this recommendation has not been determined because it would depend on the goals and assumptions established by the District and the Board's decision to offer such an incentive.

[5] Severance and the RI are calculated as being paid over a three-year period.
[6] This average salary is based on the FY 2008-09 salary schedule of 150 hours at step 4 which was identified by the Superintendent as an appropriate estimate of the average incoming employee's salary.

Financial Implications Summary

The following table is a summary of estimated annual cost savings. Implementation of those recommendations subject to negotiation requires agreement from the affected collective bargaining units.

Summary of the Financial Implications for Human Resources

Recommendations	Estimated Annual Cost Savings
R3.2 Reduce health insurance premiums to the SERB State average	$56,100 [1]
R3.3 Increase employee health insurance share to 10 percent	$65,300 [2]
R3.5 Eliminate classified paid calamity days	$18,300 [3]
Total	**$139,700**

Source: Performance audit recommendations
[1] Savings based on implementation in FY 2008-09.
[2] Assumes both bargaining units negotiate 10 percent employee contributions by FY 2010-11. There is the potential for $44,000 in savings for FY 2009-10 if successfully negotiated into a new certificated agreement.
[3] Because of current negotiated agreement, assumes implementation in FY 2010-11.

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FACILITIES

Facilities

Background

This section focuses on custodial and maintenance staffing, operations, and expenditures in the Minford Local School District (MLSD or the District). The District's operations were evaluated against best practices, peer districts,[1] and operational standards including the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the International Sanitary Supply Association (ISSA), the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), the United States Department of Energy (DOE), the Government Finance Officers Association (GFOA), the Texas School Performance Review (TSPR), and the Brevard County School District in Florida. [2]

Summary of Operations

MLSD has two school buildings: an elementary/middle school building (Pre-K through grade 8), which opened in 2004, and a high school/administrative office building, which opened in 2001. The elementary and middle schools were originally two separate facilities with the elementary school in its current location and the middle school located in downtown Minford. During 2003 and 2004, the elementary school building, which was originally built in 1970, was completely renovated and expanded to include both the middle and elementary schools. In December 2004, MLSD auctioned its middle school building.

To remain competitive with other local districts in attracting students, MLSD's Board of Education (Board) approved $2.3 million to upgrade and construct new athletic facilities in fiscal year (FY) 2005-06; this was financed through a local financial institution. Repayment of the principle and interest will cost the General Fund about $300,000 a year until January 2016, including cumulative interest charges of about $609,000. In total, MLSD has 11 ancillary buildings including an athletic facility, a football field house, a baseball field house, a soccer/track building, 2 service buildings, a transportation facility, an agricultural building and 3 modular buildings.

[1] The peers include: East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Indian Valley LSD (Tuscarawas County), Leipsic LSD (Putnam County), Loudonville-Perrysville Ex. Vil. (Ashland County), New London LSD (Huron County), New Riegel LSD (Seneca County), and Springfield LSD (Mahoning County).
[2] See **Appendix 1-A** in the **executive summary** for a summary of the facilities audit objectives.

Staffing

MLSD has total of 14 employees working in its Maintenance Department. These individuals are responsible for the operation and upkeep of the District's facilities and grounds. **Table 4-1**, illustrates Maintenance Department staffing levels and the number of full-time equivalent (FTE) employees performing the maintenance, custodial, and grounds keeping functions. FTEs are determined based on the actual number of hours devoted to each function during the school year regardless of title or position held.

Table 4-1: FY 2006-07 Maintenance Department Staffing

Classification	Number of Positions	Number of FTEs
Maintenance [1]	2	1.5
Custodians	11	9.8
Grounds Keepers	1	0.4
Total	**14**	**11.7**

Source: MLSD
[1] MLSD has two full-time maintenance supervisors who spend approximately 75 percent of their time performing building maintenance.

Custodians are responsible for providing a clean and safe environment for the students, staff, and the public who use the District's facilities. About two hours per day of custodial time is spent cleaning the athletic buildings. Custodians do not perform maintenance or grounds keeping tasks; however they are responsible for maintaining the area around their building, and these tasks include snow and trash removal.. Operationally, custodians report to their respective building principals.

The District employs a grounds keeper who maintains the grounds full-time during the summer. During the school year, the Grounds Keeper spends about six hours per day in the Transportation Department driving buses and delivering mail, leaving only about two hours for grounds keeping duties.

The Maintenance Supervisor and Assistant Maintenance Supervisor perform all building maintenance including maintaining the heating, ventilation, and air conditioning (HVAC) systems, and the District's water treatment facility. The Maintenance Supervisor reports to the Superintendent and is primarily responsible for providing high school and athletic facilities maintenance, serving as the District liaison to contractors, and managing equipment inspections and certifications. The Assistant Maintenance Supervisor reports to the Maintenance Supervisor and is primarily responsible for providing elementary/middle school maintenance, managing supply inventory; and overseeing personnel matters for the Maintenance Department.

MLSD offers annual training for maintenance and custodial workers with a focus on maintaining compliance, and using new techniques, products, and equipment. Some of this training is provided by in-house staff.

Key Statistics

Key statistics based on FY 2006-07 data are presented in **Table 4-2**. Also included in **Table 4-2,** and throughout the report, are the results of the American School and University Magazine's (AS&U) *35th Maintenance & Operations Cost Study* (April, 2006). The study was the result of a detailed survey of business officials at school districts across the nation that collected information on staffing levels, workloads, facility expenditures, and salaries. The report provides industry standards in the form of national medians in broad categories based on student enrollment. In addition, **Table 4-2** shows benchmark data from the National Center for Education Statistic's (NCES) *Planning Guide for Maintaining School Facilities* (2003).

Table 4-2: Key Statistics and Ratios

Buildings	
Total Number of Buildings	**13**
• Elementary/Middle School	1
• High School	1
• Ancillary Buildings [1]	11
Square Feet	
Total Square Feet Maintained	**296,583**
Total Square Feet Cleaned	**260,619**
• Elementary School	72,639
• Middle School	89,774
• High School	98,206
Workload Ratios	
Total Square Feet Cleaned per FTE (9.75 FTE)	**26,730**
• Elementary Schools (3.75 FTE)	19,370
• Middle School (3.0 FTE)	29,925
• High School (3.0 FTE)	32,735
NCES Planning Guide [2] (Sq. Ft. per FTE)	29,500
Total Square Feet Maintenance per FTE (1.5 FTE)	**197,722**
AS&U Cost Survey National Median [3] (Sq. Ft. per FTE)	116,272
Total Acres per Groundskeeper (0.44 FTE and 59.8 acres)	**136.7**
AS&U Cost Survey National Median [3] (Acreage per FTE)	43

Source: MLSD, NCES, and AS&U Magazine.
Note: Numbers may vary due to rounding.
[1] Ancillary buildings include athletic facilities and field houses, service and transportation buildings, the agricultural building, and modular buildings.
[2] According to the NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. Therefore, the mid-point of 29,500 square feet per FTE custodian was applied as the benchmark in the analysis. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.
[3] The AS&U study is based on a national survey which is released in April each year. The national medians used as benchmarks are for districts with between 1,000 – 3,499 students.

Table 4-2, illustrates that MLSD cleans fewer square feet per FTE custodian (26,730) than the 29,500 square feet benchmark suggested by NCES. Conversely, MLSD is maintaining considerably more square feet per FTE maintenance worker (197,722) than the AS&U national median of 116,272 square feet per FTE. The District's grounds keeper's acreage responsibility per FTE (136.7) is considerably higher than the AS&U national median of 43 acres per FTE (see **R4.1**).

Financial Data

Table 4-3, summarizes expenditures reported by the District to maintain and operate its facilities for FY 2004-05 through FY 2006-07.

Table 4-3: Historical Expenditures on Facilities

Cost Category	FY 2004-05	FY 2005-06	Change vs. FY 2004-05	FY 2006-07	Change vs. FY 2005-06
Salaries and Wages	$424,366	$471,554	11.1%	$456,406	(3.2%)
Retirement and Insurance	$159,040	$181,887	14.4%	$199,076	9.5%
Purchased Services	$379,322	$449,055	18.4%	$445,618	(0.8%)
Supplies and Materials	$91,358	$92,209	0.9%	$5,048[1]	(94.5%)
Capital Outlay	$30,663	$22,209	(27.6%)	$9,589	(56.8%)
Other	$1,279	$555	(56.6%)	$600	8.1%
Total General Fund	**$1,086,028**	**$1,217,469**	**12.1%**	**$1,116,337**	**(8.3%)**
Other Funds	$98,562	$73,351	(25.6%)	$104,850[1]	42.9%
Total All Funds	**$1,184,590**	**$1,290,820**	**9.0%**	**$1,221,187**	**(5.4%)**

Source: MLSD year-end financial records.
Note: Totals may vary due to rounding.
[1] $55,944 was spent from the Classroom Facilities Maintenance Fund (Fund 034) in FY 2006-07 for supplies and materials.

As shown in **Table 4-3**, expenditures increased 9.0 percent in FY 2005-06, and then decreased 5.4 percent in FY 2006-07. When compared to FY 2004-05, FY 2006-07 expenditures are only 3.1 percent higher. Substantial decreases in salaries and wages, supplies and materials, and capital outlay occurred in FY 2006-07 as a result of cost-cutting measures implemented by MLSD to avoid incurring a deficit that fiscal year. Increases in retirement and insurance expenditures reflect higher health insurance costs and increased retirement contributions. The large increase in purchased services in FY 2005-06 was the result of costs incurred to open the new athletic facilities.

Table 4-4, compares MLSD's General Fund expenditures per square foot on facilities to the peer average and the AS&U national median.

Table 4-4: FY 2005-06 Facility Expenditures per Square Foot

Cost Category	MLSD	Peer District Average	Above (Below) Peer Average	AS&U Median < 1,000 – 3,499 Students	Above (Below) AS&U Median
Salaries and Benefits	$2.51	$2.40	4.3%	$2.14	17.2%
Purchased Services (Excluding Utilities)	$0.53	$0.54	(2.4%)	$0.16	228.8%
Utilities	$1.20	$1.36	(12.1%)	$1.16	3.2%
• Electricity	$0.76	$0.61	23.7%	*N/A*	*N/A*
• Water & Sewerage	$0.08	$0.08	9.2%	*N/A*	*N/A*
• Gas	$0.34	$0.67	(49.6%)	*N/A*	*N/A*
• Oil	$0.02	N/A	N/A	*N/A*	*N/A*
Materials and Supplies	$0.35	$0.36	(1.9%)	$0.34	4.1%
Capital Outlay	$0.09	$0.06	33.0%	*N/A*	*N/A*
Total General Fund	**$4.67**	**$4.72**	**(1.1%)**	**$3.85**	**21.3%**

Source: MLSD FY 2005-06 year-end financial records. Peer data has not been tested.

As shown in **Table 4-4**, MLSD's FY 2005-06 total General Fund expenditures per square foot were 1.1 percent lower than the peer average. Essentially, higher per square foot expenditures for salaries and benefits were offset by lower per square foot expenditures on utilities. Within utilities, MLSD had significantly lower gas costs but significantly higher electric costs when compared to the peer average. MLSD attributes its higher electricity expense to the District's newly constructed and renovated buildings. In addition, the District has its own waste water treatment facility which increases energy consumption.

MLSD's total expenditures per square foot were 21.3 percent higher than the AS&U national median. Expenditure categories that exceed the AS&U national median or the peer average may indicate operational inefficiencies and may represent opportunities for cost reductions. Reductions in salary and benefit costs (see **R3.2** through **R3.5** in **human resources**) would help bring the District's Maintenance Department expenditures more in line with the peers. Analysis of MLSD's total expenditures per square foot in comparison to high-performing peers could also be useful as a basis for the District's internal performance benchmarking and evaluation purposes (see **R4.3**).

Recommendations

R4.1 MLSD should hire an additional FTE maintenance worker to assist with building maintenance. In addition, the District should consider reallocating 1 FTE custodian to the grounds keeping function. This will bring Maintenance Department staffing closer to industry standards and better distribute the workload among existing employees.

As illustrated in **Table 4-2**, MLSD's workload ratios exceed industry benchmarks in maintenance and grounds keeping but are below the benchmark for custodial operations. Maintenance personnel maintain 70 percent more square feet per FTE than the *35th Maintenance & Operations Cost Study* (AS&U, 2006) national median and are also responsible for HVAC system maintenance, which is often outsourced in other districts. In addition, the maintenance staff maintains a water treatment facility. These additional duties may strain the maintenance employees' ability to make timely repairs and perform preventive and routine maintenance.

Also, the grounds keeper works full-time during the summer months but only two hours per day on ground keeping duties during the school year. MLSD reported that there had been complaints from staff and parents about the grounds' appearance. These concerns, along with the high workload ratio for the grounds keeping function, indicate that the resources dedicated to grounds keeping may be insufficient to ensure adequate care of the District's grounds during the school year.

On the other hand, MLSD's custodians clean about 9 percent fewer square feet per FTE than the *Planning Guide for Maintaining School Facilities* (NCES, 2003) benchmark. Specifically, elementary school custodians are responsible for about 34 percent fewer square feet per FTE (see **Table 4-2**). If 1 FTE custodian was reallocated from the elementary school to grounds keeping duties, the workload ratio at the elementary school level would still be about 10 percent below the benchmark. However, school districts commonly maintain lower custodial workloads in the elementary schools than at the middle and high schools.

Through shifting staff within the Maintenance Department and hiring an additional maintenance employee the workload ratios would become more in line with industry benchmarks. The effects of workload redistribution are illustrated in **Table 4-5**.

Table 4-5: Staffing Workload Ratio Comparison

	Current Workload	Industry Benchmark	Redistributed Workload
Sq. Ft. per Custodial FTE	26,730	29,500	**29,956**
Sq. Ft. per Maintenance FTE	197,722	116,272	**118,633**
Acres per Grounds Keeping FTE	137	44	**42**

Source: MLSD, NCES, and AS&U magazine.
Note: Ratios may vary due to rounding.

The District added one additional FTE to the Maintenance Department when the new elementary/middle school opened. However, MLSD does not have a staffing plan that specifies target workloads or benchmarks for operational staff. Reallocating staff and hiring an additional maintenance FTE would help the District achieve optimal Maintenance Department staffing levels. Because MLSD does not have formal preventive maintenance plans (see **R4.5**); written custodial operating procedures and performance standards (see **R4.3**); or an electronic work order system (see **R4.6**), setting, monitoring, and achieving targeted workload ratios may be difficult.

Financial Implications: If MLSD were to hire an additional maintenance employee the annual cost would be about $51,000 in salary and benefits in FY 2008-09.

R4.2 MLSD should sell its modular buildings and move any programs housed in the modular buildings into its school buildings. The District should continue to lease space to the programs once they are moved into the schools.

The new high school and renovated middle/elementary school buildings were designed and built to accommodate a total of 1,900 students. At the time the District was planning for new and upgraded buildings, enrollment was increasing and was expected to be 1,900 students by FY 2006-07. However, actual enrollment has been declining an average of about 1 percent per year over the past ten years. Actual enrollment in FY 2006-07 was 1,601 students, or approximately 300 fewer students than projected. Although the District has sufficient capacity in its buildings, While MLSD has sold one modular unit, it still owns three modular buildings for which it purchases insurance and supplies, and pays for utilities. The District receives $400 per month in rent from the Head Start program that uses one of the modular buildings. The second modular building is used for storage and the third is vacant.

A Guide for Adaptive Use of Surplus Schools (Giljahn/Matheny, 1981), advises school boards to consider selling surplus buildings when all district needs have been accounted for, and all public agencies that could immediately use available space have been satisfied. Some of the advantages of selling are:

- Upkeep costs to the district are eliminated;
- The property is returned to the community tax rolls;
- If reuse of the building is specified at the sale, preservation of the building is ensured; and
- The district obtains a financial return on space which is no longer needed.

If scheduled and planned properly, the District should have enough capacity that programs housed in modular units could be brought in house. This would provide the District with one time revenue from the sales of the modular buildings in addition to some annual savings through reduced utility, supply, and insurance costs. Furthermore, once the buildings are removed, the District could reclaim that space as part of the playground area.

Financial Implication: The sale of the three modular buildings would generate one-time revenue estimated to be about $25,000. The one-time cost to remove the buildings and annual savings from reduced insurance, supplies, and utility costs are expected to be immaterial (less than $5,000).

R4.3 MLSD should develop and implement a custodial procedures manual and establish performance measures to monitor custodial efficiency. The manual should include specific cleaning procedures and performance measures and be reviewed with all custodians. It also should be reviewed regularly and updated as needed. Performance evaluations, based on standards outlined in the manual, should be conducted annually to provide custodians with feedback on their performance.

MLSD does not have written operational procedures or staff performance standards to ensure efficient custodial operations. Specifically, the District does not have written procedures for cleaning activities nor does it use performance standards to assign work and conduct performance evaluations.

According to *Best Financial Management Practices* (Florida Office of Program Policy Analysis and Government Accountability, 2002), districts should have up-to-date, written operational procedures for the maintenance and custodial departments that are accessible to school personnel and the public. Files and records of procedures and practices should be maintained and readily available for review by the public, district, and department staff upon request.

Best Practices in Public Budgeting (Government Finance Officers Association, 2000), recommends that organizations develop and utilize performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions. In addition, the Florida Office of Program Policy Analysis and Government Accountability recommends using benchmarks and measures to evaluate work performed and justify adjustments to operations.

The custodial procedures manual used by the Brevard County School District in Florida is considered to be an industry standard. The custodial procedures manual includes specific cleaning procedures that cover all areas recommended by the International Sanitary Supply Association (ISSA). These areas include:

- Supplies;
- Basic office cleaning;
- Restroom cleaning and sanitation;
- Hard surface floor maintenance, including:
  - Daily dust mopping;
  - Mopping;
  - Scrubbing;
  - Stripping and finishing; and
  - High speed burnishing.
- Classroom and corridor cleaning; and
- Basic carpet care.

Without written procedures and performance measures, custodial operations may be inefficient or completed in an inconsistent manner. Further, without formal written procedures, MLSD is more at risk if cleaning materials are not properly used or acquired. The lack of written guidelines may negatively impact the District's overall ability to complete custodial work in a timely manner.

R4.4 MLSD should develop and implement a comprehensive energy conservation program. This program should include operating procedures to reduce energy consumption; such as conducting periodic energy audits, tracking energy usage and costs, and educating students and employees on energy conserving behavior. The Board should formally assign responsibility for the energy management program to a member of the administrative team. Finally, MLSD should investigate the potential of purchasing utility services through a cooperative purchasing program to ensure it is getting the lowest price available.

MLSD has a District-wide energy conservation policy that states it will develop and implement operating procedures to reduce energy consumption in the schools. However, operating procedures have not been written and energy audits have not been performed, even though energy costs were cited by the District as a contributing factor to its projected deficits.

MLSD installed a modern, centralized HVAC system in all of its school buildings. The system is monitored and controlled though remote accessible software. However, the District does not generate annual reports showing usage trends or costs for water, electric, and gas. Utility expenditures per square foot account for 25 percent of total Maintenance Department expenditures (see **Table 4.4**). Further, MLSD does not provide District-wide energy conservation education programs for its staff and students, nor does not it participate in cooperative utility purchasing.

According to the *Planning Guide for Maintaining School Facilities* (National Center for Education Statistics, 2003), energy cost is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. The following guidelines will help a school district to accomplish more efficient energy management:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the district's energy management program, and give this energy manager access to top-level administrators; and
- Monitor each building's energy use.

According to the publication titled *School Operations and Maintenance: Best Practices for Controlling Energy Costs* (United States Department of Energy, 2004), there are several areas which districts may focus on in order to reduce excess energy consumption. These areas include:

- Lighting strategies;
- Computers and office equipment;
- The building envelope;
- HVAC;
- Water heating;
- Kitchen; and
- Vending machines.

According to *Energy-Efficient Education* (Texas School Performance Review, 2001), the bottom line for most energy management programs is getting the people who control the energy-using equipment to understand how they are involved in the overall conservation of energy. Over 2000 Texas schools are participating in the State Energy Conservation Office's Watt Watchers and WATTEAM programs. Student teams patrol assigned areas of their school, checking for lights left on in unoccupied rooms. "Tickets" or thank you notes are left for the occupants to remind them to turn off lights when they are not needed. Startup kits and training for the patrols are free. This popular hands-on energy education program for students can actually save up to 30 percent on utility costs. The

Texas School Performance Review also says that student councils, science and environmental clubs, and any school organization with an adult sponsor can do their part to educate their schoolmates, teachers, and the general public about ways to save energy in their schools, homes, and communities.

A similar example of an energy conservation education program in a local district is the information and reminder program in place at Lakota Local School District's (Lakota LSD) Union Elementary School in Butler County. Union Elementary has an energy conservation education program which consists of lists of energy conservation reminders being placed on or near all office equipment and energy consuming items. In addition, Union Elementary reiterates these reminders to students, parents, and community members through their continued inclusion in the building's community newsletters. These energy conservation education measures were observed as producing savings for Union Elementary of approximately 21 percent relative to Lakota LSD's average elementary building.

Purchasing gas and electric utilities through a consortium is considered a best practice in facilities management. Consortium cost savings are generated through the leveraging of the purchasing power of multiple agencies in order to secure volume discounts.

Because the Board's energy conservation policy has not been fully implemented, energy conservation education has not been a high priority. Specific programs for energy conservation have not been implemented and communicated across the District. As a result, MLSD has not netted cost savings from its energy conservation policy. Fully implementing an energy conservation program and assigning formal monitoring responsibilities to an administrator could help MLSD realize considerable cost savings. Furthermore, by tracking energy usage and costs, MLSD will have the data to analyze the potential benefits of purchasing utilities services through cooperative purchasing programs.

Financial Implication: If MLSD were to implement an energy conservation program it could conservatively save approximately $5,000 in FY 2007-08 and $11,000 in FY 2008-09.[2]

R4.5 MLSD should establish a formal preventive maintenance plan that is linked to its work order system (see R4.6) and facilities master plan (see R4.7). To accomplish this, the District should review the existing plan, which was developed by a private contractor when the buildings were constructed, as well as the National Center for Education Statistics (NCES) recommended practices. Using these tools, MLSD could develop a customized, executable maintenance plan of its own.

[2] Savings are based on the United States Department of Energy savings estimate of 3 percent of total utility costs.

The District's plan should provide direction for completing specific maintenance tasks or at least make specific reference to the manufacturer's equipment manual. Most importantly, the plan should be realistic. Having a maintenance plan that guides and documents routine and non-routine maintenance tasks will help protect the District's capital investments, reduce costs, and improve maintenance planning and budgeting.

With the exception of a few outsourced preventive maintenance contracts (for items such as fire panels, elevators, and the fire suppression system), MLSD does not have a formal preventive maintenance program. According to the District, it conducts regular preventative maintenance tasks on most facility systems including the HVAC system; however, the completion of those tasks has not been documented. Maintenance personnel rely on past experience, rather than formal schedules, to perform preventive and other maintenance.

When the high school was constructed, a consultant was hired to develop a maintenance plan for the District. The result was a comprehensive and complex plan that called for 5 FTE maintenance staff and budget of $1 million. MLSD attempted to use the plan but found it too overwhelming for the two maintenance supervisors to execute. As a result the plan has not been used and is now outdated.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003), recommends that all districts have a preventive maintenance program. Preventive maintenance focuses on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure.

Districts need to decide on the frequency and type of inspections needed for the items (structures, equipment, and systems) that are to be included in the preventive maintenance plan. Usually, equipment manufacturer manuals offer guidelines on the frequency of preventive maintenance and lists the items that need maintained on the equipment. Also, many manufactures will assist customers in setting up preventive maintenance plans. Depending on the needs and circumstances in the district, the following items can be incorporated into a preventive maintenance plan:

- Access controls;
- Boilers;
- Electrical systems;
- Energy management systems;
- Fire alarm systems;
- Floor covering, including gym floor care;
- HVAC systems;
- Hot water heaters;

- Kitchens;
- Painting;
- Plumbing;
- Public address systems and intercoms; and
- Roofing care.

A formalized preventive maintenance program would help to ensure maintenance is being performed as recommended by the manufacturer. As a result, MLSD can avoid costly repairs and equipment down-time and ensure that all warranties remain valid.

R4.6 MLSD should consider implementing a comprehensive computerized work order system. The work order system would enable the District to track requests, assign materials, assign tasks, set priorities, and review productivity statistics. Using accurate cost data and time-to-complete information should also result in increased efficiency and improved resource allocation decisions.

MLSD does not have a formalized work order process. Principals prioritize maintenance requests in their building and forward them to the Maintenance Department. These requests can be submitted by email, on paper, or verbally. The informality of the process makes it difficult for the maintenance staff to track and follow up on requests.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. At a minimum, work order systems should account for the date the request was received, the date the request was approved, a job tracking number, job status (received, assigned, ongoing, or completed), job priority (emergency, routine, or preventive), job location, entry user (the person requesting the work), person assigned to the job, supply and labor costs for the job, and job completion date/time. Upon completion of work, the craftsman records all labor and parts needed to complete the job. The work order is then submitted to the maintenance office for close-out. The supervisor must determine that the quality of the work meets or exceeds departmental standards. Upon closing out a work order, all information about the request should be placed in a database for future historical and analytical use (i.e., determining the yearly cost of building maintenance).

Using a computer-based system would increase accountability and efficiency by standardizing the process and providing tools to track work progress and completion. Furthermore, the use of a computerized system for generating work order forms and daily work order logs would reduce time spent on paper work and allow more time for the completion of maintenance tasks. Computerized work order systems are available from several companies and can be loaded on a personal computer or operate via the Internet. If MLSD elects to maintain a manual system, then the work order form should be formalized and should include NCES recommended elements. Upon completion of the work order, the Maintenance Supervisor can log the work order data on a spreadsheet.

Financial Implication: The average cost of a web-based work order system would be approximately $2,500 per year. A manual work order system could be implemented at no additional cost to the District.

R4.7 MLSD should develop a facilities master plan which includes a five-year capital improvement plan, updated facilities assessment information (to monitor the overall health and safety conditions in buildings), and up-to-date enrollment projections and capacity analyses. A facilities master plan and its supporting documents are essential for effective long-term facilities management and ensure that any facility decisions are made with complete and accurate information. Similarly, the master plan and capital plan can be used to improve planning and budgeting for facility-related expenses.

Minford LSD does not have a comprehensive facilities master plan or a five-year capital improvement plan. Because MLSD's buildings are either new or recently renovated, the District does not recognize the need for such plans and does not engage in long-term facilities planning.

According to *Creating a Successful Facilities Master Plan* (DeJong, 2001), districts should develop a long-term facilities master plan. The plan should contain information on capital improvements and financing, preventative maintenance and work orders, overall safety and condition of buildings, enrollment projections, and capacity analysis. The plan should be developed on a foundation of sound data and community input. A facility master plan, if developed appropriately, has the potential of having a significant impact on the quality of education in a school district. As a road map, the facility master plan should specify the projects that have been identified, the timing and sequence of the projects, and their estimated costs. A district-wide facility master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions.

Without a comprehensive facilities master plan, MLSD is not able to accurately plan for long-term trends in District enrollment or financial conditions. This could result in MLSD investing inefficiently in its facilities. By developing a facilities master plan, five-year capital improvement plan, and preventative maintenance plan (see **R4.5**), MLSD can ensure that facility needs are assessed on a regular basis and that it funds projects essential to protecting the condition and quality of its facilities.

R4.8 MLSD should develop and implement an emergency plan for its elementary and middle schools based on its Emergency Operations Manual that was developed for the high school. Implanting an emergency plan for the elementary and middle schools will ensure the District complies with its own policy and Ohio Revised Code (ORC) § 3313.536.

The District created an Emergency Operations Manual for the high school that is in line with its emergency operations policy and ORC requirements. Within this plan, the District takes an "all hazards approach" that provides guidelines for responding to crises including:

- Bomb threats;
- Fire;
- Tornados and other severe weather;
- Weapon(s);
- Strangers;
- Utilities emergency;
- Hostage;
- Violent student behavior;
- Shootings;
- Abductions;
- Vehicle crash;
- Terrorist attack; and
- Nuclear chemical plant or chemical spills.

The District also has a security system and cameras to monitor activities outside and inside the school buildings.

MLSD's school safety plan for the middle school is not nearly as comprehensive and consists of only a few pages of general safety information. A safety plan for the elementary school was not provided by the District.

ORC § 3313.536 requires the board of education of each city, exempted village, and local school district to adopt a comprehensive school safety plan for each school building under the board's control. Environmental conditions and operations of each building should be examined to determine potential hazards to student and staff safety. Based on this assessment, the board should propose operating changes to promote the prevention of potentially dangerous problems and circumstances. The ORC recommends that the board involve community law enforcement and safety officials; parents of students who are assigned to the building; and teachers and non-teaching employees who are assigned to the building in developing the plan. Remediation strategies should be included for any building where documented safety problems have occurred. A copy of the safety plan should be filed with each law enforcement agency that has jurisdiction over the school building. The statute provides additional requirements for the plan including protocols and procedures for addressing incidents.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), "securing" a facility refers to ensuring the physical security of both the facility and its occupants, and requires a comprehensive approach to planning. At a minimum, planners must consider the following issues:

- Locking systems;
- Equipment protection;
- Visibility;
- Police / security facilities;
- Fire protection;
- Communications systems; and
- Crisis management / disaster planning.

With an effective safety plan in place at each building, the District will be able to better handle emergency situations. While no plan can fully address all of the issues which may arise during a crisis situation, a well designed plan will help direct individuals toward the correct course of action and ensure continuity and consistency in how MLSD responds in emergency situations.

Financial Implications Summary

The following table represents a summary of estimated one time revenues, annual cost savings, and annual implementation costs.

Summary of the Financial Implications for Facilities [1]

Recommendation	One-Time Revenue	Annual Cost Savings	Annual Implementation Cost
R4.1 Hire 1 FTE maintenance worker			$51,000
R4.2 Sell modular buildings	$25,000 [2]		
R4.4 Implement an energy conservation program		$11,000	
R4.6 Purchase work order tracking software			$2,500
Total	$25,000	$11,000	$53,500

Source: Performance audit recommendations
[1] Assumes full implementation of recommendations in FY 2008-09.
[2] Revenue form the sale of any modular units would not impact the General Fund because it is assumed that receipts would be set aside for future building improvements.

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TRANSPORTATION

Transportation

Background

This section focuses on the Minford Local School District (MLSD or the District) transportation operations. The operations were evaluated against best practices, operational standards, legal requirements, and selected peer districts.[1] Comparisons were made for the purpose of developing recommendations to improve efficiencies and/or business practices and, where appropriate, reduce expenditures.[2] Throughout this section, best practices and operational standards were drawn from various sources including the American Public Works Association (APWA), Ohio Department of Education (ODE), Government Finance Officers Association (GFOA), Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), American Association of School Administrators (AASA), Indiana University, and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Ohio Revised Code (ORC) § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight who live more than two miles from their assigned school. Districts are also required to provide transportation to community school and non-public school students on the same basis as is provided to their students. In addition, districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. Finally, when required by an individualized education program (IEP), districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of the child.

MLSD's Board of Education (the Board) policy on student transportation was last revised in fiscal year (FY) 2003-04. The policy states that the District provides transportation to all elementary and secondary school students as determined by the administration and Board, and recognizes that high school student transportation is optional. While the policy gives the Board the power to alter transportation, the District's practice is to transport all students who request it. Therefore, the actual level of service provided exceeds the State minimum standards.

[1] The peers include: East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Indian Valley LSD (Tuscarawas County), Leipsic LSD (Putnam County), Loudonville-Perrysville Ex. Vil. (Ashland County), New London LSD (Huron County), New Riegel LSD (Seneca County), and Springfield LSD (Mahoning County).

[2] See **Appendix 1-A** in the **executive summary** for a summary of the transportation audit objectives.

The District transports students to the high school, middle school, and elementary school. All MLSD buildings are located on a centralized campus. Transportation is also provided to a vocational school, a parochial school, and a special needs school in Portsmouth, OH.

MLSD employs multi-tier routing, staggered bell schedules, and some cluster stops to improve the efficiency of its routes. Bus routing is configured manually by the Transportation Supervisor who has worked in the Transportation Department for more that 15 years. Bus routes and the number of active buses have remained relatively constant from year-to-year despite changes in enrollment.

Some of the road conditions within the District are challenging, especially for large buses. Many roads are hilly, single lane, and unpaved. Furthermore, buses often have to turn around using residential driveways. This results in driver making several maneuvers to turn the bus around which increases the amount of time it takes to complete a route. A few cluster stops exist but most students are picked up at the end of their driveway.

MLSD has sufficient controls in place to secure fuel, buses, and transportation supplies. For example, a key is required to engage the fuel pump. Each key is assigned to a specific bus and fuel consumption is monitored for individual buses. Most buses are parked inside the locked bus garage each night. Buses that can not fit in the garage are locked and parked next to the garage in a lighted and highly visible area. The District only keeps minimal transportation supplies on hand and the supplies are stored in the garage.

Organizational Structure and Responsibilities

The Transportation Supervisor manages the District's Transportation Department and has supervisory responsibilities for 1 mechanic, 17 full-time bus drivers, and all substitute drivers. The Transportation Supervisor is responsible for providing driver training and orientation programs, routing buses, coordinating and scheduling non-routine trips, and maintaining records such as ridership, fuel usage, mileage, and bus maintenance expenditures. The Transportation Supervisor reports to the Superintendent and the Superintendent's Secretary provides administrative support to the Transportation Department on an as needed basis. At the end of FY 2006-07, the Assistant Superintendent who was responsible for submitting transportation data to ODE retired. Submitting transportation data is now the responsibility of the Assistant High School Principal.

Historical Data

From FY 2003-04 to FY 2006-07, total transportation expenditures increased an average of about 6 percent, while expenditures per rider have increased an average of 15.6 percent. This is because yellow bus ridership has steadily declined while expenditures have increased. Furthermore, significant increases in fuel costs (24.8 percent over the past three years) have negatively impacted MLSD's ability to control costs in transportation operations as fuel is a significant operational expenditure. Conversely, bus insurance costs decreased about 14 percent because MLSD joined a consortium to purchase bus insurance (see *Noteworthy Accomplishment*). Although MLSD decreased discretionary expenditures in FY 2006-07 because of its financial condition, health insurance benefits limited the cost reductions the Transportation Department was able to make, holding total cost reductions to just 1.5 percent.

Operational and Cost Comparisons

Table 5-1 compares MLSD expenditure and operational data to the peer average.

Table 5-1: Key Statistics and Operating Ratios [1]

Key Statistics	MLSD FY 2006 - 07	MLSD FY 2005-06	FY 2005-06 Peer Average	FY 2005-06 Difference vs. Peers	Percent Difference vs. Peers
Square Miles	79.6	79.6	89.9	(10.3)	(11.5%)
Enrollment	1,601	1,616	1,259.5	356.5	28.3%
Population Density	N/A	19.8	16.4	3.4	20.5%
Total Students Transported (All Types)	1,200	1,289	927.4	361.6	39.0%
Riders					
Total Yellow Bus Riders	**1,187**	**1,280**	**917.8**	**362.3**	**39.5%**
Percent Special Need Riders	0.8%	1.1%	0.8%	0.3%	41.2%
Percent Public Riders	98.6%	98.3%	94.3%	3.9%	4.2%
Riders per Active Bus	**56.5**	**61.0**	**66.7**	**(5.8)**	**(8.7%)**
Buses					
Active Buses	21	21	13.8	7.3	52.7%
Spare Buses	6	7	4.4	2.6	60.0%
Spare Bus Ratio	22.2%	25.0%	25.1%	(0.1%)	(0.4%)
Miles					
Annual Routine Miles	309,060	315,000	196,717.5	118,283	60.1%
Annual Non-routine Miles	22,157	21,615	18,599.8	3,015	16.2%
Non-routine to Routine Ratio	7.2%	6.9%	12.1%	(5.3%)	(5.3%)
Routine Miles per Active Bus	**14,717**	**15,000**	**13,750**	**1,250**	**9.1%**

Source: MLSD and peers FY 2005-06 data as reported to ODE. Peer data has not been tested.
Note: Numbers may vary due to rounding.
[1] Ratios based on "Type I" yellow bus riders only.

MLSD is geographically smaller, has a higher student enrollment, and transports a higher percentage of public riders. This suggests that MLSD should be able to route buses in a manner that meets or exceeds the peer average riders per bus. However, MLSD transported about 5.8 fewer riders per bus than the peer average in FY 2005-06 (see **R5.3**).

Table 5-2 provides cost ratios for MLSD in comparison to the peer average.

Table 5-2: Cost Ratio Comparison FY 2005-06 [1]

	MLSD	Peer Average	Difference	Percent Above (Below)
Cost per Yellow Bus Rider	$687	$595	$92	15.4%
Cost per Active Bus	$41,881	$38,181	$3,700	9.7%
Cost per Routine Mile	$2.79	$2.79	$0.00	0.0%
Transportation as a Percent of General Fund Expenditures	6.2%	5.8%	0.4%	6.9%
Percent State Reimbursement	64.0%	59.5%	4.5%	7.6%

Source: MLSD and peers FY 2005-06 transportation data as reported to ODE. Peer data has not been tested.
Note: Numbers may vary due to rounding.
[1] Cost ratios based on "Type I" yellow buses only.

In FY 2005-06, the District's expenditures per rider and per active bus were higher than the peer average while expenditures per routine mile were equal to the peer average. Compared to the peers, MLSD spent a slightly higher percent of its General Fund on transportation in FY 2005-06 yet had a higher percentage of transportation expenditures reimbursed from the State.

The *35th Maintenance & Operations Cost Study* (American School & University Magazine, 2006), identifies the national median transportation costs for districts with 1,000 – 3,500 students as $414 per student and 4.8 percent of total district expenditures. MLSD and the peers are above both these national benchmarks.

Recommendations

R5.1 MLSD's transportation policies should be updated to more accurately describe the intended level of service and encapsulate the procedures for implementing Board policies, such as non-routine bus fee calculation methodology, to eliminate ambiguity. For example, the policy should articulate the Board's intent to transport all students who request it, which exceeds State minimum requirements, but is perhaps more appropriate based on the road conditions within the District. Policies should be regularly reviewed and updated as changes occur.

MLSD should also develop a transportation plan that includes information about hazardous areas, bus stop locations, schedules, and bus routes. Strategies for coping with a decreasing population of yellow bus riders should be considered and included in this plan (see R5.3). These strategies should align with and be supportive of the District's overall strategic plan (see R2.1 in financial systems).

The District has a general transportation policy that meets the minimum standards required by ORC § 3327.01. MLSD has not updated this policy to reflect actual practices and does not have a formal transportation plan in place to guide operations.

State funding is provided for all eligible students transported over one mile from school but transportation for educational and sports field trips, are not funded. MLSD has a policy for non-routine use of school buses which states that fees for the use of buses are established and made part of the District's regulations. However, FY 2007-08 will be the first year that the District will charge fees to the athletic department for non-routine bus use. The District could not provide written documentation of its fee calculation methodology.

Ohio law and administrative rule dictates school districts' minimum levels of transportation service for students, exceptions, and non-routine usage and chargeability for those services. According to *Pupil Transportation Service Levels* (ODE, 2004), each district should design and implement transportation plans. This plan should include designated walk-in areas, identification of hazardous areas, bus stop locations, and routing plans. Other issues such as day care arrangements, alternative bus stops, and length of time should also be determined by the local school district.

Best Practices in Public Budgeting (GFOA, 2000), recommends government entities identify the manner in which fees and charges are set and to the extent to which they cover the cost of services provided. Policies that require identification of both the cost of the program and the portion of the cost that will be recovered through fees and charges allow governments and stakeholders to develop a better understanding of the cost of services and to consider the appropriateness of established fees and charges. Policies may address a requirement and frequency to review all fees and charges and the level of cost recovery for services.

Policies that do not reflect the actual intent and practices of the District are not providing sufficient direction to administrators and are open to interpretation or misunderstanding. Where as, policies that describe actual practices help ensure consistent procedures and controls.

R5.2 MLSD should strengthen its internal controls by developing and implementing a system of written policies (see R5.1), procedures, guidelines, and training to ensure the transportation data are collected, reviewed, and reported accurately. The District should follow through on its plans to conduct the student bus ridership count using a five-day count, and submit the appropriate average as required by ODE. In addition, the Assistant High School Principal and Treasurer should verify that all transportation expenditures reported are consistent with ODE instructions and represent actual routine school bus operations. Further, the Treasurer, Assistant High School Principal, and the Transportation Supervisor should attend one of the transportation training sessions offered by ODE.

During the course of the audit, the District conducted a five-day count of bus riders as required by ODE.

MLSD has a methodology for collecting and verifying bus route information, non-routine and regular mileage data, and maintenance cost information for each bus. This information is collected by the bus drivers and the Transportation Supervisor, then compiled by the administrative offices and forwarded to the Assistant High School Principal who verifies the information and enters it through the ODE web site. However, this methodology and process is not documented.

The District has been counting bus ridership on one day instead of averaging ridership over a five-day period as directed by ODE instructions. Other T-form issues were also observed. For example, in FY 2006-07, the District reported one payment-in-lieu student but no expenditures were reported.

According to *Internal Controls, A Guide for Managers* (Indiana University, 2004), internal controls employ methods to help ensure the achievement of an objective. By implementing detective internal controls, management can use these methods to detect incorrect entries of reported information. Carefully designed internal controls can help management efficiently and effectively provide a reasonable level of assurance that proper transactions are occurring.

Implementing internal controls through formal procedures will help increase the validity and reliability of information reported to ODE. Moreover, accurate reporting will avoid delays in receiving reimbursement from ODE and ensure the District receives the proper amount of State funding based on the transportation services it provided.

R5.3 MLSD should consider eliminating three active buses and using them as spares by revising and consolidating bus routes. This will increase the District's riders per bus to a level more comparable to the peer average. In addition, the District should regularly review routes to try to optimize bus utilization and reorganize them as ridership demands change.

MLSD uses 21 active buses to provide transportation services to students. Regular transportation buses run two tiers per bus, except the vocational school bus. The District's rural location makes it impractical to have many cluster stops on routes. Because the District is small in size and the Transportation Supervisor is familiar with the District's geography, routing software has not been used. However, the District may want to consider routing software in the future. This could help the District better achieve manufacturers' recommended bus utilization while minimizing the time students spend on buses.

In FY 2005-06, MLSD transported approximately 61 students per bus which was almost 9 percent less than the peers. In FY 2006-07, ridership dropped to less than 57 students per bus (see **Table 5.1**). In addition, the District plans to sell two spare buses in FY 2007-08, dropping the spare bus ratio below the ODE benchmark. To bring the District more in line with peers, it could potentially eliminate three bus routes, retaining 18 active buses. By holding the three buses as spares, the District's spare bus ratio would meet the ODE-recommended number of spares.

The District should review and attempt to consolidate its current routes to increase ridership. According to *Hidden Savings in Your Bus Budget* (American Association of School Administrators, 2005), an effective rider per bus ratio is 100-to-1, for a double-tiered/routed system, such as Minford LSD's. This figure, however, does not account for special needs ridership. In order to bring its regular riders per active bus ratio more in line with the peer average, and begin striving to meet the American Association of School Administrators' recommended ratio, the District should eliminate three buses from the active fleet.

In FY 2005-06 the District's costs per student was 15.4 percent higher than the peer average (see **Table 5.2**). By reducing the number of active buses, the cost per student would decrease to a level more in line with the peer average. In addition, MLSD would not have to replace as many buses in the near-term as it otherwise would if it continued to operate 21 active buses.

Financial Implication: Based on the FY 2006-07 average costs for substitute drivers, maintenance, and insurance, MLSD could save about $50,600 per year by reducing three buses.

R5.4 MLSD should track the price it pays for transportation related items and use that data to determine if the District is receiving competitive pricing by comparing prices to multiple suppliers and consortiums. If the District finds it is consistently overpaying, it should use the pricing data to negotiate better pricing from its current supplier or investigate options to purchase supplies from a more competitive source.

MLSD does not track or analyze transportation costs as a way to determine whether or not it is receiving a good value for its money. For example, **Table 5-3** shows that the District's maintenance costs are considerably higher than the peer average.

Table 5-3: Maintenance Cost Comparison [1]

	MLSD	Peer Average	Difference
· Per Yellow Bus Rider	$100.42	$75.86	32.4%
· Per Active Bus	$6,120.81	$5,141.94	19.0%
· Per Routine Mile	$0.41	$0.37	11.2%

Source: FY 2005-06 transportation data reported to ODE. Peer data has not been tested.
Note: Numbers may vary due to rounding.
[1]Based on FY 2005-06 expenditures including mechanic and mechanic helper salaries.

MLSD's overall maintenance and repair costs per active bus for FY 2005-06 were 19.0 percent higher per active bus, and 11.2 percent higher per routine mile than the peer average. This indicates that the District may not be receiving competitive pricing from its suppliers, and/or may be the result of operating too many buses (see **R5.3**). The District needs to particularly understand maintenance and fuel costs because of the amount of dollars spent in these categories each year. Seeking competitive pricing could result in tangible savings as experienced by the District with its bus insurance purchased through a consortium (see *Noteworthy Accomplishment*). By tracking cost data, the District will be able to establish a baseline to help measure and identify competitive pricing opportunities.

According to the *Contract Management Manual* (Voinovich Center for Leadership and Public Affairs, 2001), effective contract management assures the community that taxpayer dollars are spent strategically and wisely by maintaining control over the purchasing process and results. The purchasing authority must be able to demonstrate consistent, fair, and objective practices, and not be subject to charges of favoritism or bias in the selection, compensation, or evaluation of service providers.

According to *Best Financial Management Practices* (Florida Office of Program Policy Analysis and Government Accountability, 2002), districts should ensure that fuel purchases are cost effective and that school buses and other vehicles are efficiently supplied with fuel. Purchasing arrangements with vendors should be developed to ensure that the district receives the most favorable rates available. Staff should establish procedures to determine when orders to replenish district's fueling stations should be placed.

Members of the Ohio Department of Administrative Services' (ODAS) Cooperative Purchasing Program buy supplies and services through State government contracts at negotiated discount prices. ODAS provides members with weekly fuel prices which districts can use to compare to other vendors' prices.

The company that provides the MLSD with diesel fuel owns the fuel tank located on the District's property. MLSD has a good relationship with this supplier and has purchased fuel from this company for many years. As a result, the District does not request periodic price quotes or compare prices from other fuel suppliers, nor has it sought to join fuel purchasing programs, such as offered by ODAS.

By tracking cost data, MLSD will have the information needed to confirm that it is receiving the best purchase price, ensure proper accountability and internal controls, and reduce the appearance of any improprieties. The annual membership fee to join the ODAS State Cooperative Purchasing program would be $110.

R5.5 MLSD should develop a formal bus replacement plan that ties to the overall District capital plan (see R4.7 in facilities). In addition, it should document its maintenance practices in a written maintenance plan. These plans will help the District organize and prioritize needs, provide safe transport, reduce maintenance costs, and devise a means to fund future transportation expenditures.

MLSD has five active buses that have or will have more than 250,000 miles by the end of the five-year forecast period; based on projected annual miles of about 18,400 per bus. If the District transfers the three highest mileage active buses to spares (see R5.3), it will need to replace one bus in FY 2009-10 and one in FY 1010-2011. Timing and funding for the replacement of these buses should be spelled out in the replacement plan.

MLSD does not have a written bus replacement or maintenance plan. However, systematic, preventive maintenance procedures are in place and regular maintenance is performed. In addition, each year the District's buses are rigorously inspected by the State Highway Patrol as required by ORC § 4511.761. These inspections ensure a certain level of maintenance is performed.

The District's practice was to replace two buses each year. However, because of recent financial difficulties, it has not been able to maintain this practice. As a result, MLSD has three active buses with approximately 200,000 miles or more and that are 12 to 16 years old.

According to the *Public Works Management Practices Manual* (American Public Works Association, 2001), effective equipment management requires that repairs be made before equipment fails. This involves a preventive maintenance approach to provide for systematic, periodic servicing of equipment to facilitate operations with a minimum of downtime. Well-planned preventive maintenance programs, which follow the manufacture's recommendation and schedules, will result in a dependable fleet and extended equipment life with lower operations, maintenance, and repair costs. Planning and scheduling preventive maintenance activities requires providing the right maintenance at the right time at the lowest overall cost.

School Bus Replacement Considerations (National Association of State Pupil Transportation Services, 2002), notes that the timely replacement of school buses must be a planned process and directly impacts the timeliness of introducing the latest safety, efficiency, and emissions improvements into the fleet. The elimination of school buses that do not meet the latest standards or requirements must be planned within a realistic number of years. An independent study of annual school bus operating costs indicated that after 12 model years or 250,000 miles of use, the annual operating cost of school buses begins to increase significantly and continues to increase each year thereafter. South Carolina asserts that school buses should be replaced on a 15 year or 250,000 mile life cycle, based on the average mileage accumulated by school buses in the state.

With a bus replacement and maintenance plan in place, the District will be more likely to maintain its priorities while reducing transportation expenditures. A bus replacement plan will formalize the District's criteria and methodologies for replacing buses and help the District plan for future expenditures. Preventive maintenance practices help prolong the life and operating efficiency of the District's buses, therefore reducing the frequently of bus purchases. A written plan will help keep maintenance organized and provide a useful tool when staffing changes occur.

Financial Implication: Assuming the MLSD reduces its current active fleet by three buses (see **R5.3**), the District will need to pay an estimated $18,500 from the General Fund to replace two buses during the forecast period. This amount assumes that the District will continue to receive and accumulate State funding for bus purchases of approximately $21,200 per year.

R5.6 MLSD should include transportation personnel in the individualized education program (IEP) process to help ensure the District is providing the safest and most efficient method of transportation for its special needs students. In addition, decisions on how a special needs student is transported should be documented, including an explanation for why the method of transportation was chosen.

The Transportation Supervisor is not consulted in the preparation of IEPs when special transportation is required. However, once it is determined that a student needs special transportation, the Transportation Supervisor, with input from the student's parents, determines the best way to transport the student.

When possible, special needs students are placed on regular bus routes. Students that can not ride on regular bus routes are typically transported either by a special needs bus or by District-owned cars. MLSD uses substitute drivers to transport special needs students that are not on regular buses. The MLSD used three buses and two District-owned cars to transport these students in FY 2006-07. It also has negotiated a payment-in-lieu of transportation arrangement for one student.

The Ohio Administrative Code (OAC) § 3301-51-10 (C)(2) states that school district transportation personnel shall be consulted in the preparation of the individualized education program when transportation is required as a related service and when the child's needs are such that information to ensure the safe transportation and well-being of the child is necessary to provide such transportation. Further, all specialized transportation service must be outlined in student IEPs. OAC § 3301-51-07 (D)(3) states that special transportation required by the child's IEP shall be provided in accordance with OAC § 3301-51-10.

Transportation for People with Disabilities (Ohio Legal Rights Service, 2006), clarifies that separate special needs transportation is required by law depending on each child's IEP. Special transportation means vehicle transportation service directly related to the child's disability and required by the IEP. Therefore, because the type of special needs transportation service is identified in the IEP, the Transportation Director should have input on the appropriateness of the proposed transportation method.

Involving the Transportation Supervisor in the IEP process can help to ensure special needs students are receiving safe and cost-effective transportation.

Financial Implications Summary

The following table summarizes the estimated annual cost savings and implementation costs identified in recommendations presented in this section of the report.

Summary of the Financial Implications for Transportation

Recommendation	Annual Cost Savings	One-Time Cost FY 2011-12 [1]
R5.3 Reduce three active buses [2]	$50,600	
R5.5 Replace two buses		$18,500
Total	**$50,600**	**$18,500**

Source: Performance audit recommendations
[1] Assumes constant amount of State funds are received each year and accumulated for bus purchases.
[2] Assumes reduction of active buses effective the beginning of FY 2008-09.

FOOD SERVICE

Food Service

Background

This section focuses on the operational efficiency of the Minford Local School District (MLSD or the District) food service operations. The procedures and financial condition of the District's food service program were analyzed for the purpose of developing recommendations for improvements in processes, and identifying opportunities to increase efficiency.[1] The District's operations were evaluated against best practices and operational standards including the National Food Service Management Institute (NFSMI), the United States Department of Agriculture (USDA), the Government Finance Officers Association (GFOA), and selected peer districts.[2]

Organizational Structure and Function

MLSD's food service operation consists of 13 employees, including the Food Service Director, 3 head cooks, 5 cooks/cashiers, and 4 cook aides. The District also uses student workers at each building who are paid through the Occupational Work Adjustment (OWA) program, which is grant funded. Since the purpose of OWE is to provide students with work experience, the terms of the program prohibit these students from being used in lieu of full-time staff. Therefore, throughout the audit these student workers were omitted from analyses involving food service staffing.

The Food Service Director is responsible for managing daily operations, planning menus, purchasing food and supplies, conducting training, collecting data for claims submission, and handling cash. Data collection and cash handling is automated through the Café Terminal point-of-sale system. Within this system, each student has a unique account which allows the District to track credits and charges on the students' account as well as student eligibility for free and reduced priced meals. The Food Service Director uses the system to prepare daily participation reports.

The food service staff prepares and serves breakfast and lunch on-site at the District's two school buildings. There is one kitchen at each building, but the elementary/middle school kitchen prepares food to serve in the elementary school and middle school cafeterias, as well as meals for the Head Start program. There are two head cooks at the elementary/middle school kitchen who are assisted by three cooks/cashiers. Two cook aides work in the elementary school cafeteria and

[1] See **Appendix 1-A** in the **executive summary** for a summary of the food service audit objectives.
[2] The peers include: East Holmes LSD (Holmes County), Garaway LSD (Tuscarawas County), Indian Valley LSD (Tuscarawas County), Leipsic LSD (Putnam County), Loudonville-Perrysville Ex. Vil. (Ashland County), New London LSD (Huron County), New Riegel LSD (Seneca County), and Springfield LSD (Mahoning County).

two cook aids work in the middle school cafeteria. A head cook and two cooks/cashiers work at the high school. Head cooks work 8 hours per day while cooks/cashiers work between 5.5 and 8 hours. The four cook aides work three hours per day and also work five hours as bus drivers. All employees who work 7 and 8 hour shifts receive a paid 30 minute lunch break each day (see **R3.5** in **human resources**).

Financial Condition

The Fund Service Fund is an enterprise fund, which means it is intended to be self-supporting similar to private businesses and rely on charges and reimbursements to cover the costs of operations. **Table 6-1** illustrates MLSD's Food Service Fund revenues, expenditures, and other financing activities for fiscal year (FY) 2004-05 through FY 2006-07.

Table 6-1: MLSD Food Service Fund, Three-Year History

	FY 2004-05	FY 2005-06	% Change	FY 2006-07	% Change	Change vs. FY 2004-05
Operating Revenue						
Student Charges	$243,607	$249,622	2.5%	$258,212	3.4%	6.0%
Non-Operating Revenue						
Earnings on Investments	$1,776	$0	(100.0%)	$2,937	100.0%	65.4%
State Grants-in-Aid	$12,720	$12,312	(3.2%)	$12,027	(2.3%)	(5.5%)
Federal Grants-in-Aid	$279,343	$235,834	(15.6%)	$300,501	27.4%	7.6%
Total Revenue	**$537,447**	**$497,767**	**(7.4%)**	**$573,677**	**15.3%**	**6.7%**
Operating Expenditures						
Personal Services - Salaries	$218,270	$231,984	6.3%	$205,749[1]	(11.3%)	(5.7%)
Employees Retirement & Insurance	$128,763	$127,865	(0.7%)	$129,235[2]	1.1%	0.4%
Purchased Services[3]	$30,320	$28,459	(6.1%)	$29,148	2.4%	(3.9%)
Supplies and Materials	$171,948	$181,651	5.6%	$179,113	(1.4%)	4.2%
Capital Outlay	$7,326	$4,588	(37.4%)	$451	(90.2%)	(93.8%)
Other Objects	$246	$264	7.2%	$645	144.8%	162.5%
Total Expenditures	**$556,873**	**$574,810**	**3.2%**	**$544,342**	**(5.3%)**	**(2.3%)**
Revenues Over (Under) Expenses	**($19,426)**	**($77,043)**	**(296.6%)**	**$29,336**	**138.1%**	**251.0%**
Transfers/Advances						
Transfers-In	$44,498	$76,401	71.7%	$0	(100.0%)	(100.0%)
Advances-In	$0	$0	0.0%	$0	0.0%	0.0%
Transfers-Out	($25,060)	$0	(100.0%)	$0	0.0%	(100.0%)
Advances-Out	$0	$0	0.0%	($29,258)	(100.0%)	0.0%
Net Transfers/Advances	**$19,438**	**$76,401**	**293.0%**	**($29,258)**	**(138.3%)**	**(250.5%)**
Revenues Over (Under) Expenses (Including Transfers)	**$12**	**($642)**	**(5664.7%)**	**$78**	**(112.1%)**	**575.9%**
Beginning Fund Balance	**$630**	**$642**	**1.8%**	**$0**	**(100.0%)**	**(100.0%)**
Ending Fund Balance	**$642**	**$0**	**(100.0%)**	**$78**	**100.0%**	**(87.8%)**

Source: MLSD FY 2004-05 through FY 2006-07 4502 reports.
[1] Does not include $30,968 in salary expenditures for the Food Service Director.
[2] Does not include $17,359 in benefits for the Food Service Director.
[3] Purchased Services includes government commodities, which are typically included in supplies and materials at other districts.

As shown in **Table 6-1**, the Food Service Fund ended FY 2006-07 with a positive fund balance. However, the District made a significant change to its accounting practices to ensure a positive balance. In prior years, the Food Service Director's salary and benefits were paid out of the Food Service Fund. However, in FY 2006-07, the District paid the Food Service Director's salary and benefits from the General Fund in order to avoid having to transfer funds from the General Fund to the Food Service Fund. This explains the 11.3 percent decrease in personal services expenses between FY 2005-06 and FY 2006-07. If the Food Service Director's salary and benefits would have been included in the Food Service Fund, expenditures would have exceeded revenues by $14,188. After including these relevant costs, the food service operation has operated at a deficit for the past three fiscal years.

Also reflected in **Table 6-1** were delays in the receipt of federal reimbursements. MLSD received $300,501 in federal grants-in-aid in FY 2006-07, an increase of 27.4 percent from the previous year. This increase was due to a delay in the District's federal reimbursement of $29,258 for the month of May 2006. The reimbursement was for meals served in FY 2005-06 however, MLSD did not receive these funds until the first month of FY 2006-07, thereby creating an operating surplus for the year. While the District has experienced delays in receiving its federal reimbursements from ODE, an analysis of MLSD's claims submissions confirmed the District submits reimbursement claims to ODE within the required 60 day timeframe.

Table 6-2 shows adjusted financial data for FY 2005-06 and FY 2006-07 and compares MLSD's Food Service Fund revenues and expenditures to the peer average on a per meal equivalent basis.[3]

[3] Per meal equivalents were based on definitions from National Food Service Management Institute. The conversion of meal equivalents used is as follows:

- 1 lunch = 1 meal equivalent;
- 3 breakfasts = 2 meal equivalents; and
- A la carte meal equivalents = a la carte sales divided by free lunch reimbursements plus commodity value per meal.

Table 6-2: Operating Statistics Comparison

	MLSD FY 2005-06	MLSD FY 2006-07	Peer Average FY 2005-06	FY 2005-06 Difference vs. Peer Average
Total Meal Equivalents Served	**222,511**	**221,429**	**171,820**	**29.5%**
Revenues per Meal Equivalent				
Total Operating Revenue	$1.12	$1.17	$1.56	(28.1%)
Total Non-Operating Revenue [1]	$1.25	$1.29	$0.83	50.7%
Total Revenue	**$2.37**	**$2.46**	**$2.34**	**1.3%**
Expenditures per Meal Equivalent				
Salaries [2]	$1.04	$1.07	$0.85	22.2%
Benefits [3]	$0.58	$0.66	$0.51	12.7%
Purchased Services [4]	$0.01	$0.01	$0.07	(89.8%)
Supplies and Materials [4]	$0.94	$0.93	$0.95	3.4%
Capital Outlay	$0.02	$0.00	$0.00	415.5%
Other	$0.00	$0.00	$0.00	(40.8%)
Total Expenditure	**$2.58**	**$2.68**	**$2.35**	**10.1%**
Total Gain or (Loss)	**($0.22)**	**($0.22)**	**$0.04**	**(611.3%)**

Source: MLSD, peers, and ODE. Peer data has not been tested.
[1] FY 2005-06 non-operating revenue includes an additional $29,258 and FY 2006-07 non-operating revenue contains $29,258 less than what is indicated on the District's year end financial records. This is attributed to a delay in receipt of the May 2006 federal reimbursement which was not received until July 2006.
[2] FY 2006-07 salaries were increased by $30,969 to include the Food Service Director's salary which was paid from the General Fund.
[3] FY 2006-07 benefits were increased by $17,359 to include the Food Service Director's benefits which were paid from the General Fund.
[4] MLSD charged government commodities to purchased services instead of supplies and materials. Adjustments lowering purchased services and increasing supplies and materials were made to match the reporting practices of the peer districts.

As shown in **Table 6-2**, MLSD derives a larger portion of its revenue from non-operating sources compared to the peer average. Non-operating revenue includes federal reimbursements for participation in the school breakfast and lunch programs as well as State grants-in-aid. Operating revenue in the Food Service Fund is composed of student charges for paid and reduced priced meals and a la carte sales. **Table 6-2** also shows that the District's operating revenue is below the peer average on a per meal basis. MLSD increased meal prices in FY 2005-06 to generate additional revenue. This increase caused prices to rise above the peer average. However, MLSD receives a larger percentage of its revenues from free and reduced lunches and is therefore more dependent on changes to federal reimbursement rates for increases in operating revenue.

While total revenues are comparable to the peers, expenditures exceeded the peers by 10.1 percent per meal. The District spent 22.2 percent more on salaries and 12.7 percent more on benefits than the peers per meal equivalent. These variances can be attributed to staffing levels (see **R6.3**), and generous contract provisions (see **R3.4** and **R3.5** in **human resources**). In both FY 2005-06 and FY 2006-07, District expenditures exceeded revenues by approximately $0.22 for each meal equivalent served.

Recommendations

R6.1 MLSD should develop a strategic plan with specific goals and objectives for its food service operations. The goals and objectives should support and be consistent with District-wide strategic planning efforts (see R2.1 in financial systems). Based on the identified strategic goals and objective, MLSD should develop a budget and five-year forecast of the Food Service Fund and a comprehensive set of performance measures. Readily available budget and performance information will assist management to proactively address or minimize operating deficits, ensure progress toward operational goals and objectives, and maintain alignment with the District's strategic initiatives.

MLSD does not have a formal food service strategic plan to guide the operation in setting and achieving operational goals and measuring progress towards those goals. The District has discussed ways to achieve isolated goals, such as increasing student participation in the school breakfast program and ensuring that every child who wants a meal receives one. However, neither of these goals is formally documented.

The Food Service Director assists in managing the budget by keeping food and supply prices low, analyzing vendor quotes, and working to ensure competitive pricing. The Food Service Director receives a monthly report from the Treasurer to help monitor the costs of the supplies and materials. However, the Food Service Director and Treasurer have not developed an annual budget or a five-year forecast for the Food Service Fund. Moreover, the District does not formally measure the performance of its food service operations.

According to the *Best Practices in Public Budgeting* (Government Finance Officers Association, 2000), a government should prepare policies and plans to guide the design of programs and services. These policies and plans may address items such as: groups or populations to be served, service delivery issues, examples of possible programs, standards of performance, expected costs, time frames for achievement of goals, issues pertaining to organizational structure, and priorities for service provision. While these broad long-range plans guide operations, they must be supplemented and integrated with short-term operations planning to achieve these broader purposes.

An important component of a strategic plan for the food service operation is a current year budget and a long-range forecast. According to *School Foodservice Management for the 21st Century* (National Food Service Management Institute, 1999), a budget, used as a plan for financial management, can provide several key benefits. It can help a manager or director forecast revenue and expenses based on prior year's data, estimates, and planned changes; serve as a tool for identifying potential problems by contrasting actual financial activity with projected activity and provides for a basis for comparison; and can be used to set performance standards, control erratic expenditures, and help a manager determine if the program can afford to make purchases.

The National Food Service Management Institute also recommends forecasting revenue and expenditures over a five-year period for long-range planning. Forecasting can give the administration sufficient notice of emerging issues so that action can be taken to correct them. With increases in labor, supplies, and other operating costs, lunch prices and cost saving measures need to be evaluated annually.

Finally, performance measures can be used to document progress towards the food service operational goals. The Government Finance Officers Association recommends that performance measures should be based on program goals and objectives that tie to a statement of program mission or purpose and measure the efficiency and effectiveness of program results or accomplishments over time. When linked to the budget and strategic planning process, performance measures can be used to assess accomplishments on an organization-wide basis. The Springfield Local School District (Summit County) tracks the performance of its food service operation on a monthly basis. Analyses are performed at the building and district-wide level. Measures used to analyze the food service operation include operating profit (loss), labor costs per meal, meals per labor hour (MPLH), food costs per meal, and the number of free and reduced lunches at its schools. In all instances, policies and plans should be adopted by the governing body and made publicly available.

Beginning in FY 2007-08, ODE will no longer require districts to submit cost information with claim submissions. However, for those districts who still wish to make use of them, the financial management tools in the Claims Reimbursement and Reporting System (CRRS) will still be available. If MLSD used the monthly reports that are generated through CRRS as a resource for measuring the performance of its food service operation, no additional data collection would be necessary. For example, the performance audit analysis used these reports to analyze both operational and cost efficiencies (see **Table 6-3**).

Without a central document that formalizes strategies, MLSD is not able to clearly monitor the implementation and effectiveness of operational decisions. A food service strategic plan, budget, forecast, and performance measures will provide a more complete picture of financial and operational conditions and help the District avoid needing to use General Fund money to support the operation.

R6.2 In order to have an accurate understanding of operational costs, MLSD should charge all related expenses to the Food Service Fund. This should be done regardless of the Food Service Fund's ability to maintain a positive balance. Allocating all food service expenses to the Food Service Fund will provide a more

accurate financial picture which will, in turn, improve decision-making related to revenue and program adjustments.

In FY 2006-07, MLSD paid the Food Service Director's salary and benefits out of the General Fund in order to avoid creating a deficit in the Food Service Fund. The District also allocated $29,148 of operational expenditures to purchased services when they were primarily government commodities and should have appeared in the supplies and materials line item. In addition, with the exception of telephone expenses, utility costs such as electricity and natural gas, were not allocated to the Food Service Fund but instead completely paid from the General Fund.

The Government Finance Officers Association (GFOA) in *Measuring the Cost of Government Services* (2002), suggests that governments should measure the full costs of their services. Moreover, Ohio Revised Code (ORC) § 3313.81 requires the Food Service Fund to be kept separate from all other funds, including the General Fund. All receipts and disbursements in connection with the operation of food service are to be paid directly into and disbursed from the Food Service Fund.

Even when the Food Service Fund faces impending deficits, it is still important to account for all costs. Not charging food service expenditures to the Food Service Fund creates an inaccurate depiction of the operation. Accurately capturing all costs in the Food Service Fund will allow MLSD to evaluate the true efficiency and performance of the operation and effectively plan for future needs (see **R6.1**).

Financial Implication: Reallocating the Food Service Director's salary and benefits for FY 2007-08 to the Food Service Fund would decrease the General Fund and increase the Food Service Fund salaries and benefits by a about $43,500. If the District allocates projected FY 2007-08 utility expenditures to the Food Service Fund on a prorated basis, purchased services would increase by approximately $22,000 in the Food Service Fund and decreased by the same amount in the General Fund.[4]

R6.3 In order for the Food Service Fund to be self-sufficient without further raising meal prices, MLSD should reduce 10 labor hours from its daily food service operation. This reduction would bring the number of meals per labor hour (MPLH) in line with the national standards set forth by National Food Service Management Institute (NFSMI).

[4] Approximately 6.1 percent of total building square footage is occupied by the Food Service operation. This figure includes electricity, gas, water/sewage, and trash services.

Measuring MPLH[5] provides an indicator of a food service operation's productivity and efficiency. The more meal equivalents served per day, the higher the operations efficiency rating. **Table 6-3** displays the District's food service operation efficiency for FY 2006-07 compared to NFSMI standards.

Table 6-3: FY 2006-07 MPLH Comparison[1]

Building	Total Meal Equivalents Served/Day	Labor Hours per Building	MPLH	NFSMI Standard[2]	Difference vs. National Standard	Labor Hours at National Standard
MLSD Staff Labor Hours [1]						
High School	360	20.5	17.6	18.0	(0.4)	20.0
Elementary/ Middle School	932	50.0	18.6	23.0	(4.4)	40.5
Total	**1292**	**70.5**	*N/A*	*N/A*	**(4.8)**	**60.5**

Source: ODE, MLSD, and NFSMI
[1] Does not include hours worked by MLSD High School OWE students.
[2] The national standard is based on a convenience system, high productivity level.

Table 6-3 indicates that both the high school and elementary/middle cafeterias operate below the NFSMI MPLH standard. To meet NFSMI standards, the elementary/middle school and high school would need to reduce daily labor hours by 9.5 and 0.5, respectively. The effect of overstaffing is reflected in the operation's finances. As **Table 6-2** indicated, MLSD spent $1.04 per meal equivalent on salaries in FY 2005-06 which was 22.2 percent more than the peer average. In addition, MLSD's salary cost per meal equivalent increased 2.8 percent in FY 2006-07.

The Food Service Fund deficit can be attributed, in part, to high salary expenditures. Even though large food service operations should be able to operate at a more efficient level than smaller operations, when the District consolidated the elementary and middle schools, there was not a reduction in staffing levels. The District would need to reduce 10 hours per day to reach NFSMI efficiency benchmarks. This reduction could be made by changing the schedules of existing employees or eliminating 1.25 FTE's. MLSD could reduce 3.5 labor hours with no impact on service levels if it were to concurrently eliminate the half-hour paid lunch provision in the negotiated agreement (see **R3.5** in **human resources**) and reduce the workday of eight-hour and seven hour employees by a half-hour. If this provision were eliminated, the District would only need to reduce an additional 6.5 labor hours per day.

Financial Implication: By reducing 10 labor hours, the District could save approximately $27,000 in wages and $16,100 in benefits for total savings of $43,100 in the first year.

[5] The measurement is calculated by dividing the total labor hours worked by the total meal equivalents (breakfast, lunch, a la carte) served per day at each building.

R6.4 MLSD should attempt to increase participation rates in its breakfast and lunch programs in order to maximize federal reimbursement and sales. In particular, the District should implement direct certification of student's eligibility for free meals by using the Ohio Department of Job and Family Services (ODJFS) eligibility information provided by ODE. The District should also formally solicit input from students and other stakeholders to identify areas which, if improved, could increase participation rates.

During the course of the performance audit, MLSD began using direct certification to verify student eligibility.

In FY 2006-07, MLSD's participation in the school lunch program was 4 percent below the peer average for reimbursable lunches. Including non-reimbursable a la carte sales, the District is 7.1 percent below the peers.

To certify student eligibility for free and reduced lunches, the Food Service Director sends home applications for the program with students on the first day of school. The Food Service Director approves applications as quickly as possible and requests proof of eligibility from 3 percent of the approved applicants. To ensure that all eligible students are certified for free or reduced price meals, MLSD contacts families who do not send in an application but whose children were approved for free and reduced meals during the previous school year. While this process meets eligibility certification standards, direct certification would provide the District with a more efficient means to ensure it is maximizing participation. In FY 2008-09, all school districts will be required by ODE to use direct certification. The District previously tried to implement direct certification however the Food Service Director indicated that it was unsuccessful due to flawed data. ODE is taking steps to ensure districts receive accurate data.

The U.S. Department of Agriculture (USDA) introduced direct certification for free meals in the late 1980s. Under direct certification, information from the state food stamp or welfare agency is used to directly certify children receiving benefits without requiring them to complete certification applications. Direct certification was designed primarily to improve program access and administrative efficiency. It is based on the assumption that if existing data from state food stamp or welfare offices were used to directly certify children, a greater number of eligible children may become certified for free meals and it would take less time for school Districts to process applications.

The District also does not have a formal method to obtain and address stakeholder concerns and feedback. Rather, feedback from students is solicited on an informal basis when samples are occasionally offered during lunch. However, potential barriers to higher meal participation rates, such as the time it takes to purchase a meal, the selection of meals, and the affordability of meals, are not being formally evaluated.

One way the District may be able to increase participation is through a customer satisfaction survey. According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), if sampling is used when students move through the cafeteria line, as is the occasional practice at MLSD, then some type of form for expressing opinions should be provided. *Recipes for Practical Research in Child Nutrition Programs* (NFSMI, 1998) recommends food service programs seek customer feedback from students and parents. Surveys are one method for gathering information from a large group of people in a short period of time at a moderate cost. Data gathered from students should be the basis for developing enhancements in food service and nutrition programs. By evaluating customer feedback and working to continually improve operations, MLSD will ensure that has a sound customer base and improved financial stability.

The food service staff's ability to address customer concerns and increase program participation is limited without the use of the above strategies. By garnering stakeholder input, District administrators will be better positioned to raise or at least maintain participation rates and, by extension, use the increased revenues to prevent deficits in the Food Service Fund. As food service operations contain a fixed cost component, it is important the District maintain a high participation rate in the school breakfast and lunch programs thereby ensuring a lower cost per meal.

Financial Implication: Based on the costs incurred in FY 2006-07, the District may be able to enhance the Food Service Fund by $17,000 annually if participation is increased by 7 percent, a level more commensurate with its peers.

R6.5 MLSD should transition its food safety plan into standard operating procedures that includes all operational processes such as controlling cash, ordering food and supplies, preparing and submitting reimbursement data to ODE, and approving students for free and reduced meals. Expanding the food safety plan by incorporating standard operating procedures would help MLSD ensure that workers have sufficient knowledge about all critical aspects of their job function and the District meets standards for both quality and compliance.

In August, 2006, the Food Service Director developed a Hazard Analysis and Critical Control Point (HACCP) food safety plan in accordance with requirements of Section 111 of the Child Nutrition and Women Infants and Children (WIC) Reauthorization Act of 2004. This plan was based on materials from NFSMI and the USDA. The plan's purpose is to improve the overall food safety of the food service operation through employee education and day-to-day training.

While MLSD has a food safety plan, the District does not have documentation of the other functions of the operation such as controlling cash, purchasing food and supplies, and record keeping requirements. Moreover, operation of the point-of-sale system has not been documented.

Chardon Local School District (Geauga County) has developed a comprehensive manual of standard operating procedures that communicates critical areas of operations to food service employees. This manual was developed using the Pinellas County Schools (Florida) Food Service Manual as an example. The manual includes the following:

- Board policies;
- Cash control procedures;
- Receipt of goods procedures;
- Inventory procedures;
- Processes used for ordering of food and supplies;
- Production record keeping;
- Sanitation and food safety;
- Employee safety; and
- Procedures for emergencies or injury.

The level of experience held by the Food Service Director and food service employees has made the formal compilation of such materials a low priority. However, personnel changes are frequently unexpected and, if unprepared, could result in a disruption of operations. Without written procedures, the District can not ensure continuity in essential areas of the food service operation should staff turnover or an extended absence take place. Prior to the release of this audit, MLSD contacted the Chardon Local School District for technical assistance in transitioning its food safety plan into a comprehensive food service operations manual.

The HACCP-based food safety plan can serve as a resource for food service employees regarding food safety and ensures that employees are well trained in the area of food safety. Incorporating the food safety plan into a comprehensive food service operations manual would help MLSD ensure that workers have sufficient knowledge about all critical aspects of their job function and that all job functions are sufficiently documented. Detailing processes of how tasks are to be performed help ensure quality and compliance.

R6.6 If MLSD is not able to eliminate the Food Service Fund deficit, it should explore the benefits and costs of contracting for food services by implementing a competitive request for proposal (RFP) process. Once multiple RFPs are obtained from providers, the District should analyze the proposals to determine whether contracting for food services would reduce costs and improve, or at least maintain, service quality.

Over a decade ago, MLSD employed Taher, a food service management company (FSMC) from Minnesota, to oversee its food service operation. The food service employees were District employees and Taher provided operations management. The Food Service Director was hired after the FSMC's contract was not renewed. Since that time, the District has not sent out RFPs to food service management companies.

According to the Government Finance Officers Association (GFOA) publication, *Best Practices in Public Budgeting* (2000), governments should evaluate alternative delivery mechanisms to ensure the best approach is selected for delivering a service. A government should institute a process to review existing service delivery methods in the context of how well they meet programmatic and operating policies and plans. The process should include an examination of how a government traditionally provides the service versus whether the service could be delivered more effectively or more efficiently if provided in a different way, either by the government itself or by entities outside of the government.

In 2006-07, Food Service Fund revenues exceeded expenditures by approximately $29,300. However, all food service related expenditures were not accounted for in the Food Service Fund. Implementing **R6.2** would account for these expenditures but would negatively impact the food service fund by approximately $65,500 annually. In 2006-07, this would have resulted in a deficit of approximately $36,200. **R6.3** and **R6.4** would reduce the District's Food Service Fund expenditures by $60,100 and eliminate the need for the General Fund to subsidize the Food Service Fund. However, if the performance audit recommendations are not implemented or if conditions change and the Food Service Fund routinely requires subsidies from the General Fund, the District should send out RFPs to food service management companies.

Financial Implications Summary

The following table is a summary of estimated annual cost savings, revenue enhancements, and implementation costs.

Summary of the Financial Implications for Food Service

Recommendation	Estimated Annual Cost Savings/Revenue Enhancements	Estimated Annual Implementation Costs
R6.2 Use cost allocation to account for all expenses of the food service operation		$65,500[1]
R6.3 Reduce labor hours to meet NFSMI benchmark	$43,100	
R6.4 Implement customer satisfaction survey and direct certification to increase participation rates	$17,000	
Total	**$60,100**	**$65,500**

Source: Performance audit recommendations
[1] Includes $43,500 for the Food Service Director's salary and benefits and $22,000 for utilities. Cost allocations would result in savings to the General Fund.

DISTRICT RESPONSE

District Response

The letter that follows is the Minford Local School District's (the District) official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

Minford Local Schools

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April 7, 2008

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Auditor of State
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State Auditor Taylor:

On behalf of the Board and administration of Minford Local School District, I want to thank you and the audit project team, led by Scott Bennington, for all your efforts in regard to the recent performance audit and post-audit meeting. The information provided has and will make a difference in our school district's efficiency and financial situation.

I had sent informal comments earlier in the process to Scott on our intent to follow up on the report's recommendations and we are in touch for finalization of the audit report. It is interesting to note that, compared to our peer group of districts, the report finds that we are a total of 18 personnel below in number and that will be changed to 19 due to an elimination of a full-time cook. With further attrition in teacher retirements, given our lower student enrollment, we expect to not replace three to four teachers for this coming year which will increase that number. Despite such a low employee count, we expect to continue our pursuit of excellence and will continue to recover financially if such is possible in the current economic climate.

We appreciate the information and best practice examples given and we look forward to utilizing the report findings to improve our school district operations.

Sincerely,

Dennis J. Meade

Home of the Mighty Minford Falcons

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