



Mary Taylor, CPA  
Auditor of State

# MIAMI EAST LOCAL SCHOOL DISTRICT PERFORMANCE AUDIT

AUGUST 11, 2009



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To the Residents and Board of Education of the Miami East Local School District:

Pursuant to Amended Substitute House Bill 119, a performance audit was initiated for the Miami East Local School District (Miami East LSD) beginning in November 2008. The four functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations that support its mission of educating children, and because improvements in these areas can assist in improving its financial situation.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Miami East LSD's financial situation and a framework for sustainability. While the recommendations contained in the audit report are resources intended to assist in managing Miami East LSD's finances, the District is also encouraged to assess overall operations and develop alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the financial condition of the District; a District overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to Miami East LSD, and its contents discussed with the appropriate officials and District administrators. The District has been encouraged to use the results of the performance audit as a resource for 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,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

August 11, 2009





# Executive Summary

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## Project History

The Auditor of State (AOS) conducted a performance audit of Miami East Local School District (MELSD or the District) under House Bill (H.B.) 119 that began in October, 2008 and was initiated in response to the District's May, 2008 five-year forecast. The forecast showed a deficit of \$128,382 beginning in FY 2008-09 and growing to \$1.2 million at the end of the forecast period. After the completion of fieldwork, MELSD submitted its May 2009 forecast, which showed the District operating with a positive ending fund balance until FY 2011-12. Small deficits are projected for the remaining two years of the forecast. (See also *subsequent events*.)

As stipulated under HB 119, the performance audit included a review of programs and areas of operation in which AOS believes that greater operational efficiency, effectiveness, and accountability may be achieved.

Based on AOS research and discussions with MELSD officials, the following areas were assessed in the performance audit:

- Finance and Strategic Management and Food Service Operations;
- Human Resources;
- Facilities; and
- Transportation.

Audit work concluded in March, 2009 and final draft audit reports were shared with District officials in May. The goal of the performance audit process was to assist MELSD administrators and the Board to identify cost savings 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.

## District Overview

MELSD is located in Miami County and is a rural District. It operates two school buildings on a single campus, a K-8 facility and a high school and it supplements its classroom space with four modular units. The district covers 121 square miles. Like all Ohio school districts, it is governed by an elected board.

In FY 2007-08, it provided educational services to an average daily membership (ADM) of 1,220<sup>1</sup> preschool through twelfth grade students. The District's per pupil General Fund expenditures were \$8,696 and its revenues per pupil were \$8,783. At the time of this audit, MELSD projected its FY 2009-10 and FY 2010-11 expenditures would exceed revenues by approximately \$193,000 and \$469,542 respectively, resulting in a FY 2010-11 year-end deficit of \$316,612. However, MELSD ended FY 2007-08 with a larger than projected ending fund balance due to an unanticipated increase in income tax revenue. The Treasurer described the installment as a one-time catch up of income tax receipts. As a result, the District made no reductions in staff or services that year. However, the District forecast methodology for employee salaries and benefits were projected to be flat in the last two years of the forecast, which projects an overly optimistic view of District expenditures.

MELSD employed approximately 138 full-time equivalent (FTE) staff consisting of 8.5 FTE administrators, 81.3 FTE educational personnel, 3.0 technical personnel, 13.8 office/clerical personnel, and 31.2 FTE operations and other staff. The regular education student-to-teacher ratio was approximately 18:1. When compared to the peers, District regular classroom teachers and educational service personnel (ESP) were above peer averages. The District also provides many administrators with additional retirement benefits and certificated employees hired before July, 2005 and all classified staff is only required to pay 10 percent for medical insurance. The District met 30 out of 30 academic performance indicators established by the Ohio Department of Education (ODE) and was categorized as excellent with distinction. Finally, it provided transportation services to 1,104 rides using 14 active buses in FY 2007-08.

During the course of the audit, District voters approved a 28 year, 2.5 mil bond issue to be used in conjunction with funds from the Ohio School Facilities Commission (OSFC) for the construction of a new high school facility. MELSD constructed its K-8 building under an Expedited Local Partnership Agreement with OSFC. A capacity analysis using the new facility blueprints determined that the District is potentially building a larger high school facility than needed based on enrollment projections. The District also does not have a facilities master plan and does not appropriately track preventative maintenance.

Based on projections and assumptions contained in the District's October 2008 and May 2009 five-year forecasts, coupled with the recommendations outlined in this report, the District can avoid a future operating deficit and sustain a positive fund balance through FY 2011-12. However, some of the potential recommended reductions impact instructional areas and may have a negative effect on the associated programs. As a result, the District will need to continually assess projections to determine if expenditure reductions beyond those presented in this report are needed.

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<sup>1</sup> The source for this formula average daily membership is the Final Version #3 enrollment data contained in the Ohio Department of Education (ODE) SF-3 report.

## **Subsequent Events**

After the completion of fieldwork, MELSD released its May 2009 forecast. This forecast incorporates the effect of cost savings generated during the 2008-09 school year. In the May 2009 forecast, MELSD is depicted as avoiding a deficit until FY 2011-12, at which time it encounters small deficits in the remaining two years of the forecast.

Also, the Treasurer indicated that, while MELSD has noted a decline in income tax collections, real property collections have continued to increase slightly as the result of continued construction within the District.

During the course of the audit, an administrator retired and MELSD did not refill the position. Instead, it combined the duties within an existing administrative position. The Treasurer estimated the District saved at least \$60,000 from this change in operations. Additionally, six retirements at the conclusion of the 2008-09 school year resulted in reduced salaries and wages for these positions as they were filled with new hires or left vacant.

On July 17, 2009, HB 1 was enacted with substantial changes to the school funding formula and educational requirements for Ohio school districts. It contains several staffing requirements and lower student-to-teacher ratios in grades K-3. These requirements will affect MELSD and increase personnel costs in certain areas. According to the Superintendent, the K-3 requirements of reducing ratios to 15:1 will require MELSD to employ two additional regular education teachers at each grade level (a total of eight). Based on facility walkthroughs conducted during the audit, auditors note that this change in ratios, and the requirement to enact all day kindergarten for all students, may also strain MELSD's ability to adequately house its students in the new elementary/middle school.

Finally, according to MELSD's July 10, 2009 foundation settlement report from ODE, the District is projected to receive a net increase in funding of approximately \$63,000. While the District loses about \$140,400 in State foundation, this amount is made up American Recovery and Reinvestment Act (ARRA) "stimulus" funds. It should be noted that the ARRA funding will be eliminated in two years (FY 2012-13), and the status of future State unrestricted funding is unknown. Therefore, the District should be cautious in its use of these funds and seek additional opportunities to reduce operating expenditures.

## **Objectives, Scope and Methodology**

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the

information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>2</sup>

The overall objective of this performance audit is to assist the District in identifying strategies to improve its financial condition. The following presents the major assessments conducted in this performance audit:

- Expenditures, forecasting, budgeting, purchasing, strategic planning, payroll, and food service operations were reviewed in the **financial systems and food service section**.
- District-wide staffing levels, collective bargaining agreements, salary levels, benefit costs and special education expenditures were assessed in the **human resources section**.
- Custodial and maintenance staffing, facility related expenditures, building capacity, policies and procedures, preventative maintenance, energy management, and the work order system were examined in the **facilities section**.
- Transportation staffing and expenditures, reporting, and policies and procedures were reviewed in the **transportation section**.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The recommendations in the performance audit comprise options that MELSD can consider in the continuing efforts to stabilize its financial condition.

The performance audit of MELSD was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. AOS believes that the evidence obtained provides a reasonable basis for the audit findings and conclusions based on the audit objectives.

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 MELSD and other school districts. The selected districts were Anna Local (Shelby County), Berlin-Milan Local (Erie County), Fort Loramie Local (Shelby County), Highland Local (Medina County), Kalida Local (Putnam County), Miller City Local (Putnam County,

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<sup>2</sup> As defined in *Government Auditing Standards* (U.S. Government Accountability Office, 2007).



New Bremen Local (Auglaize County), Pettisville Local (Fulton County), Russia Local (Shelby County), and Wayne Local (Warren County).<sup>3</sup>

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 National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO), and other related best practices. Information used as criteria (benchmarks or leading practices) was not tested for reliability.

The performance audit process involved significant information sharing with MELSD, 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 MELSD 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 Miami East Local School District for its cooperation and assistance throughout this audit.

## **Noteworthy Accomplishments**

### *Strategic Planning*

MELSD uses a comprehensive and sophisticated strategic plan to guide its operations. The strategic plan was first implemented in 1993, and the District last updated it in 2005. When updating the strategic plan, the District solicits input from Board members, administrators, staff, and community members in a process facilitated by the Superintendent of the Miami County Educational Service Center. Through this process, MELSD adopted the mission statement of the District, which is "to provide an individually focused and progressive, quality education that enables students to be contributing citizens of the local and world communities." From that mission statement, MELSD identified five goals to align its operations with the District's mission. These goals include:

- Improvement of a comprehensive staff development program;
- Promotion and expansion of partnerships among students, staff members, parents, businesses, and community members;

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<sup>3</sup> The ten peer districts are classified as type 3 districts by the Ohio Department of Education. These Districts were selected because they are high performing, low cost school districts.

- Provision of a safe, appropriate, cost effective and quality educational environment for students, staff, and community members, with a focus on building, consolidating, and upgrading school facilities;
- Improvement of curriculum and instruction; and
- Improvement of District technology.

MELSD uses its plan to guide spending for curriculum improvement, staff development, building and facility improvement, and technology. Citizens and District personnel participated in goal-centered committees to move the strategic plan goals forward. District finances reflect that MELSD was clearly focusing its limited resources in the areas identified as priorities in the strategic plan.

### *Board Governance*

MELSDs Board of Education uses the District's web site to publicize Board meeting dates, highlights from Board meetings, and Board policies and procedures. The Board regularly reviews the District's policies and updates the policies on an as needed basis. The Board continually reviews its progress by completing annually evaluations of itself, the Superintendent, and the Treasurer.

### *Special Education*

The District uses its intervention program to assist students and reduce the number of IEPs needed. The intervention program has helped MELSD to maximize its special education resources, which resulted in its FY 2007-08 special education expenditures being 9 percent below the peer average. Where possible, the District places special needs students into regular classrooms. The District's practices meet best practice guidelines.

## Conclusions and Key Recommendations

The following are key recommendations from the performance audit report:

*In the area of finance and strategic management and food service operations, MELSD should:*

- Implement the recommendations and remedies for non-compliance citations identified in recent financial audit management letters
- Revise its projections for personnel services to incorporate step increases and realistic negotiated wage increases for FY 2011-12 and FY 2012-13. Moreover, the Treasurer should revise the methodology for projections of employee retirement and insurance benefit expenditures.
- Ensure that its purchasing policy is being followed and appropriate internal controls are implemented. District administrators noted in their response to the audit that appropriate policies and procedures are used for commodity purchasing for the food service program and that MELSD uses a cooperative for purchasing food-related items.
- Expand the use of direct deposit and approach bargaining unit representatives to request negotiating mandatory use of direct deposit and electronic pay stubs for all employees. By mandating direct deposit, the District can save \$2,500 per year.

**During the course of the audit, MELSD implemented Outlook Web Access. Employees can now receive payroll e-statements.**

- Work to increase school lunch participation at the high school, and track participation to ensure staffing levels are appropriate.
- Ensure that all food service related expenses are charged to the Food Service Fund. If the District allocates utility expenditures to the Food Service Fund on a prorated basis, purchased services would increase by approximately \$11,000 in the Food Service Fund and decrease by the same amount in the General Fund, based on FY 2007-08 data.

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

- Develop a formal staffing plan to address current and future staffing needs. In doing so, the District should establish staffing allocations for administrative, certificated, and classified personnel. District administrators noted in their response to the audit that MELSD has decreased its staff each year for the past five years. In the past four years, the District has reduced its staffing by two administrators and several interpreters and aides.

- If financial conditions deteriorate, consider reducing classroom teachers by 8.0 FTEs to achieve a staffing level at 18 percent above State minimums. The reduction of 8.0 FTE classroom teachers could save MELSD approximately \$582,000 in salaries and benefits in FY 2009-10 while keeping the District 18 percent above the State minimum requirements. Because of its small size, staffing reductions would limit MELSD's ability to offer programs above minimum requirements.

***HB 1 will impact the District's ability to make staffing reductions in certain areas.***

- Consider eliminating 1.5 educational service personnel (ESP) FTE to achieve a staffing level comparable to the peer average. The reduction of 1.5 FTE ESP teachers could save MELSD approximately \$96,600 in salaries and benefits in FY 2009-10 while keeping the District 75 percent above the State minimum requirements. In its response to the audit, MELSD officials noted that during the past two years, the District has eliminated two aides. However, the recommended reductions of ESP are in addition to the reductions already made by the District.

***HB 1 will impact the District's ability to make staffing reductions in certain areas.***

- Cease paying the employee's share of the retirement benefit for all administrative positions. If the District stopped paying the employee share of the retirement benefit and the additional percentage, it could save approximately \$54,000 annually based on projected FY 2009-10 wages.
- Negotiate an increase in the employee contribution toward medical premiums. District employees that are currently contributing 10 percent should be increase to 15 percent. This increase would affect certificated employees hired before July 2005 and all classified staff. Increasing employee medical premium contributions to 15 percent for certificated employees hired before July 2005 and all classified employees would result in savings of approximately \$44,500 annually based on FY 2008-09 premiums.

**During the course of the audit, MELSD was successful in negotiating a change to the certificated collective bargaining agreement that stipulates new hires will pay a 20 percent employee share. The District was not successful in negotiating this change to its classified bargaining agreement.**

- Seek a lower cost insurer for its life insurance based on the cost per \$1,000. The District should also evaluate the amount of life insurance provided to each employee. If the District reduced the amount of life insurance to \$35,000 per employee and negotiated a lower rate per \$1,000 comparable to the Ohio Education Association (OEA) average, the District could save approximately \$3,000 annually.

**During the course of the audit, MELSD obtained a lower cost insurer (Sun Life Insurance) through a purchasing cooperative. The Treasurer estimated the change in providers will save the District between \$5,000 and \$6,000 annually.**

*In the area of facilities, MELSD should:*

- Develop a Facility Master Plan. The plan should compile enrollment projections, functional capacity and utilization data, facilities costs, energy management polices (see R4.5), preventative maintenance plans (see R4.2), capital improvement plans, and information from buildings audits. Finally, the District should ensure the design of new high school matches the projected enrollment and utilization of the facility.

In its response to the audit, MELSD noted that it already had and has used a Facilities Master Plan created by the Ohio Schools Facilities Commission (as discussed in the **facilities** section). In addition, the District has a 5-year strategic plan, which includes a Facilities Committee and goals. The Facilities Committee has established a four-year capital plan as a component of its strategic plan goals. Lastly, the District has created a Comprehensive Safety Plan as required by Jarod's Law. This Comprehensive Safety Plan includes a lengthy detailed preventive maintenance section. There are four copies of this plan distributed in each of the buildings across the District. Auditors note that MELSD could use these building blocks to develop its own comprehensive facilities master plan with few additions.

- Preventative maintenance (PM) plans for its K-8 building and high school are developed and implemented.
- Consider purchasing a computerized maintenance management system (CMMS) to track information for maintenance work orders, as well as preventive maintenance and capital improvements. Purchasing CMMS software would cost approximately \$800 for an annual subscription fee based on supplier advertised prices. The exact price will depend on the features desired by MELSD and the contract terms negotiated with the vendor.
- Develop and implement a formal energy management program that incorporates practices recommended by the United States Green Building Council.
- Discontinue the practice of allowing head custodians and one second shift custodian at the kindergarten through 8<sup>th</sup> grade school to receive 2 and ½ hours of overtime per week for building checks during the school year (40 weeks). If the District eliminated all guaranteed overtime provided to head custodians for weekend building checks, it would save \$9,200 in FY 2008-09.

In its response to the audit, MELSD noted that the practice of providing overtime to one second-shift custodian for building checks has been eliminated for FY 2009-10. However, administrators noted that, on numerous occasions, the weekend checks have discovered electrical, mechanical, and fuel problems that were repaired and corrected before school began the following Monday.

*In the area of transportation, MELSD should:*

- Review its bus routes on an annual basis to verify ridership and route efficiency and accuracy. The District should first consider purchasing routing software to assist with designing routes, help decrease the number of miles traveled and the amount of time paid to drivers, as well as reduce student travel time. If MELSD purchased routing software, it would incur a one-time cost of about \$10,000 and an annual maintenance fee of approximately \$2,000.

In its response to the audit, MELSD officials noted the district participated in an informational meeting with TRANSFINDER Bus Routing in the spring of 2009. The software system would result in a one-time cost of \$5,000 and a \$2,000 annual cost. Unfortunately, they noted that it takes nearly a year to set-up the system and software so MELSD would not be able to use this system at the start of the 2009-10 school year. The District plans to partner with the Miami County MRDD in purchasing the software in FY 2009-10, noting that the MRDD will have the GPS information for the entire county at its disposal.

- Consider combining its two special education routes to be more efficient and/or use other strategies for transporting special education students to reduce costs.

In their response to the audit, MELSD administrators noted the two special education routes transport students to over six different schools in the morning. Logistically, they feel the District could not transport these students to all of the schools on time without running two separate routes. Auditors encourage MELSD to seek other methods, including partnerships with neighboring districts to achieve cost savings in special education transportation. MELSD administrators noted that they will continue to explore partnership opportunities.

- Seek bids for its bus insurance and maintenance contract to ensure it obtains the best price for these services. In addition, MELSD should explore partnering with a nearby district to contract for maintenance services. If the District were able to achieve maintenance and repairs expenditures per bus similar to the peers, it would save approximately \$40,000.

In the response to the audit, MELSD noted it had contacted three neighboring districts seeking to partner with these districts to contract for maintenance services. None of these three districts, although all larger than Miami East, were able to fulfill this request. The Treasurer also noted that, for FY 2008-09, the contract had provided a cash flow benefit for the District, reducing annual start up costs and prorating them across the contract year.

In addition, MELSD administrators noted that they planned to seek new bus insurance bids in conjunction with insurance for the new high school building, as the insurance for buses and property is a bundled product.

- Consider selling at minimum four spare buses. This would result in a spare bus allocation that is more consistent with ODE's guidelines and the peer average. Additionally, selling four spare buses would generate additional revenue, reduce the District's insurance costs, and reduce maintenance and repair costs. If the District reduced four spare buses, it could generate a one-time revenue of \$17,200 from selling or trading in the spare buses. By reducing four spare buses, the District would also save approximately \$12,000 in annual bus maintenance charges. This would result in a total savings/one-time revenue of \$17,200 for the first year and \$12,000 per year thereafter.

## Issues 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 issues that require further study:

- **Bus Reductions:** In FY 2008-09, MELSD's ridership per bus of 72.2 decreased from the previous year's ridership per bus of 78.9. Additionally, the District reported 1,011 yellow bus riders, a decrease of 93 riders (8.4 percent) from FY 2007-08. The District still has relatively efficient busing. Further, if the two special education buses and one vocational bus are excluded, ridership per bus would increase to 95.2. This level is close to the American Association of School Administrators (AASA) benchmark of 100 riders for a two-tiered system. However, since the District appears to be losing ridership, it should evaluate ridership per bus each year to identify opportunities to eliminate buses, reduce costs, and maximize the efficiency of its transportation operation.

In its response to the audit, MELSD expressed concerns that, due to the size and rural nature of the district, the average student is already on a bus nearly 45 minutes each route. Eliminating additional routes would translate into more students being on the buses for even longer periods of time. However, auditors encourage MELSD to examine the design of its routes each year using automated means to determine if additional routing efficiencies can be gained. Because of its rural nature and size, transportation services are a large expense for the District. Future savings could potentially be achieved by increasing ridership per bus as enrollment declines, although opportunities to adjust routes may not be immediately available.

- **Guaranteed Transportation Hours:** The District's classified collective bargaining agreement specifies that 30 minutes of paid fueling time is awarded for the purpose of cleaning, fueling, required daily inspections, and bus service at assigned garages. The District should evaluate the practice of allowing 30 minutes for these activities to ensure it accurately reflects the time required to complete these tasks so bus drivers are paid for actual work performed. Allowing 30 minutes of paid fueling time to each driver increases salary costs for transportation, and may not reflect actual work performed.

**Though MELSD has not been able to change the guaranteed 30 minutes of refueling time, it has used this time to have its drivers pick up and deliver its buses to its garage in Troy. Therefore it does not incur personnel costs for the extra time required for these trips.**



## 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 that MELSD should consider. Some of the recommendations depend on labor negotiations or collective bargaining agreements. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

### Performance Audit First-Year Savings Implications

Recommendation	Estimated First Year Savings
<b>R2.10</b> Charge a portion of utilities to the Food Service Fund	\$11,000
<b>R3.2</b> Eliminate 8.0 regular teaching FTEs	\$582,200
<b>R3.3</b> Eliminate 1.5 ESP FTEs	\$96,600
<b>R4.3</b> Subscribe to a CMMS System	(\$800)
<b>R5.2</b> Purchase routing software	(\$12,000) <sup>1</sup>
<b>R5.4</b> Receive formal written quotes for bus insurance and bid the maintenance contract to obtain lower costs similar to peers	\$40,000
<b>R5.6</b> Sell four spare buses	\$29,200 <sup>2</sup>
<b>Subtotal Not Subject to Negotiation</b>	<b>\$746,200</b>
<b>R2.7</b> Implement compulsory direct deposit	\$2,500
<b>R3.4</b> Eliminate additional retirement benefit for administrators	\$53,400
<b>R3.5</b> Increase employee contribution toward medical premiums to 15 percent	\$44,500
<b>R3.6</b> Reduce amount and the rate per \$1,000 of Life and AD&D insurance	\$3,000
<b>R4.5</b> Discontinue guaranteed custodial overtime for week-end building checks	\$9,200
<b>Subtotal Subject to Negotiations</b>	<b>\$112,600</b>
<b>Total General Fund Impact of Performance Audit Recommendations</b>	<b>\$858,800</b>

Source: AOS recommendations

<sup>1</sup> If the District purchased routing software, it would be a one-time cost of about \$10,000 and an annual maintenance fee of approximately \$2,000.

<sup>2</sup> If the District reduced four spare buses, it would obtain additional estimated \$17,200 in funds from selling or trading in the spare buses. By reducing four spare buses, the District would also save approximately \$12,000 in annual bus maintenance charges.

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**FINANCIAL SYSTEMS &  
FOOD SERVICE**

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# Financial Systems and Food Service

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## Background

This section of the performance audit focuses on the financial systems, strategic management, and enterprise fund (food service) operations within the Miami East Local School District (MELSD or the District). This section analyzes the current and future financial condition of MELSD and examines District-wide management policies and procedures in order to develop recommendations for improvements. MELSD's financial management policies, procedures, and operations were evaluated against recommended practices, industry standards, State requirements, operational benchmarks, and selected peer districts.<sup>1</sup> Recommended practices and industry standards were drawn from various sources including the Government Finance Officers Association (GFOA), the Ohio Department of Education (ODE), the Auditor of State (AOS), the Ohio Ethics Commission (OEC), the Society for Human Resource Management (SHRM), the National Automated Clearing House Association (NACHA), and the National Food Service Management Institute (NFSMI).

### *Treasurer's Office Operations*

MELSD's Treasurer's Office consists of three employees: the Treasurer, who reports to the Board of Education (the Board), and the Assistant Treasurer and part-time Clerk/Cashier, who both report directly to the Treasurer. The Treasurer's Office is responsible for processing payroll, administering accounts payable/receivable, managing employee benefits, and reporting District finances to the Board and the general public. The District's financial policies, which guide the Treasurer's Office operations, were examined and compared with recommended practices (see **R2.1**). An examination of payroll operations indicated that, while MELSD has appropriate controls in place for processing payroll and has kept payroll runs to a minimum, the District does not require employees to enroll in direct deposit and has not sufficiently cross-trained its payroll staff (see **R2.6** and **R2.7**). Moreover, while the District has a procedures manual and written purchasing policies, the District is not following the established policies (see **R2.2** and **R2.5**).

### *Financial Condition*

Ohio Revised Code (ORC) § 5705.391 requires all city, local, exempted village, and joint vocational school districts to submit five-year forecasts 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. **Table 2-1** represents

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<sup>1</sup> See the **executive summary** for a list of the 10 peer districts.

the Treasurer's projections of present and future conditions as of October 2008 and shows projected revenues, expenditures, and ending fund balances for each of the fiscal years (FY) ending June 30, 2009 through June 30, 2013.

**Table 2-1: FY 2008-09 October Five-Year Forecast (in 000s)**

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenues:</b>								
General Property (Real Estate)	\$2,643	\$2,769	\$2,837	\$2,988	\$3,017	\$3,048	\$3,078	\$3,109
Tangible Personal Property Tax	\$220	\$161	\$111	\$69	\$0	\$0	\$0	\$0
Income Tax	\$743	\$886	\$1,585	\$1,978	\$1,997	\$2,017	\$2,038	\$2,058
Unrestricted Grants-in-Aid	\$4,765	\$4,786	\$4,821	\$4,794	\$4,842	\$4,890	\$4,939	\$4,989
Restricted Grants-in-Aid	\$56	\$45	\$47	\$47	\$48	\$48	\$49	\$49
Property Tax Allocation	\$366	\$410	\$505	\$602	\$671	\$685	\$649	\$614
Other Revenue	\$541	\$475	\$610	\$610	\$610	\$610	\$610	\$610
Other Financing Sources	\$227	\$193	\$202	\$207	\$205	\$207	\$209	\$211
<b>Total Revenues and Other Financing Sources</b>	<b>\$9,562</b>	<b>\$9,724</b>	<b>\$10,719</b>	<b>\$11,295</b>	<b>\$11,392</b>	<b>\$11,506</b>	<b>\$11,573</b>	<b>\$11,640</b>
<b>Expenditures:</b>								
Personnel Services	\$5,483	\$5,623	\$5,886	\$6,177	\$6,350	\$6,553	\$6,553	\$6,553
Retirement/Insurance Benefits	\$1,820	\$1,881	\$1,900	\$1,995	\$2,051	\$2,117	\$2,117	\$2,117
Purchased Services	\$1,506	\$1,376	\$1,527	\$1,603	\$1,683	\$1,768	\$1,856	\$1,949
Supplies and Materials	\$283	\$291	\$430	\$451	\$474	\$498	\$522	\$549
Capital Outlay	\$100	\$68	\$37	\$74	\$78	\$82	\$86	\$91
Other Objects	\$176	\$157	\$189	\$199	\$209	\$219	\$230	\$242
<b>Total Expenditures</b>	<b>\$9,368</b>	<b>\$9,397</b>	<b>\$9,970</b>	<b>\$10,500</b>	<b>\$10,846</b>	<b>\$11,237</b>	<b>\$11,365</b>	<b>\$11,500</b>
Other Financing Uses	\$353	\$531	\$642	\$739	\$739	\$739	\$739	\$739
<b>Total Expenditure and Other Financing Uses</b>	<b>\$9,720</b>	<b>\$9,928</b>	<b>\$10,612</b>	<b>\$11,239</b>	<b>\$11,585</b>	<b>\$11,976</b>	<b>\$12,104</b>	<b>\$12,239</b>
Result of Operations (Net)	(\$159)	(\$204)	\$107	\$56	(\$193)	(\$470)	(\$531)	(\$598)
Beginning Cash Balance	\$746	\$587	\$384	\$490	\$546	\$353	(\$117)	(\$648)
<b>Ending Cash Balance</b>	<b>\$587</b>	<b>\$384</b>	<b>\$490</b>	<b>\$546</b>	<b>\$353</b>	<b>(\$117)</b>	<b>(\$648)</b>	<b>(\$1,246)</b>
Budget Reserve	\$0	\$0	\$0	\$200	\$0	\$0	\$0	\$0
<b>Ending Fund Balance</b>	<b>\$394</b>	<b>\$172</b>	<b>\$285</b>	<b>\$146</b>	<b>\$153</b>	<b>(\$317)</b>	<b>(\$848)</b>	<b>(\$1,446)</b>

Source: MELSD

Note: Totals may vary due to rounding.

As illustrated in **Table 2-1**, the District projects an operational deficit beginning in FY 2009-10, with a deficit ending fund balance beginning in FY 2010-11 and approaching \$1.5 million in FY 2012-13. However, because MELSD avoided a deficit in FY 2007-08 through an increase in the receipt of income tax revenues above initial forecasted amounts, the District has not made any staffing or program reductions.

MELSD's forecast assumptions and methodologies were analyzed to determine whether they were reasonable and appropriate. However, the Treasurer does not use software or other planning tools to prepare his forecast and does not have a formal process in place for its preparation (see

**R2.1).** While the Treasurer’s assumptions were generally determined to be reasonable, AOS identified areas where assumptions for expenditure line items could be improved (see **R2.3**).

### *Mission Statement and Strategic Plan*

MELSD uses its strategic plan to guide its operations. The strategic plan was first implemented in 1993, and the District last updated it in 2005. When updating the strategic plan, the District solicits input from Board members, administrators, staff, and community members in a process facilitated by the Superintendent of the Miami County Educational Service Center. Through this process, MELSD adopted the mission statement of the District, which is “to provide an individually focused and progressive, quality education that enables students to be contributing citizens of the local and world communities.” From that mission statement, MELSD identified five goals to align its operations with the District’s mission. These goals include:

- Improvement of a comprehensive staff development program;
- Promotion and expansion of partnerships among students, staff members, parents, businesses, and community members;
- Provision of a safe, appropriate, cost effective and quality educational environment for students, staff, and community members, with a focus on building, consolidating, and upgrading school facilities;
- Improvement of curriculum and instruction; and
- Improvement of District technology.

Although the District’s strategic plan does not include performance measures tied to the objectives, MELSD uses its plan to guide spending for curriculum improvement, staff development, building and facility improvement, and technology. Auditors discussed the absence of performance measures and clear ties to the budgeting process or spending decisions with the District. When auditors examined the District’s finances, they found evidence that MELSD was clearly focusing its limited resources in the areas identified as priorities in the strategic plan. The District could enhance its strategic plan through more clear links between goals and objectives, MELSD’s annual budget, and its five-year forecast.

### *Financial Operations*

MELSD generated approximately \$2.8 million in local real estate taxes in FY 2007-08 from a total millage of 46.5 mills.<sup>2</sup> However, tax reduction factors restricting the growth in taxes have

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<sup>2</sup> MELSD’s outside millage consists of 31.5 mills for General Fund current expenses, 3.5 mills for its Capital Improvement Fund, and 5.0 mills for its Bond Retirement Fund. Additionally, the District has 6.5 mills of inside (un-voted) millage designated for current expenses.

resulted in an effective tax rate of 27.3 mills, with 20.0 mills collected for current expenses.<sup>3</sup> In the November 4, 2008 election, voters approved the renewal of a five-year, 3.5 mill operating levy. In addition, they approved a new 28-year, 2.5 mill bond issue for \$6,575,000 to be used in conjunction with funds from the Ohio School Facilities Commission (OSFC) for the construction of a new high school facility.

In addition to property tax, MELSD also receives a significant source of operating funds through a local income tax. In 2006, voters in the school district approved a 0.5 percent income tax, bringing the total income tax collection to 1.0 percent, which is applied on a continuing basis.

The Ohio Department of Education (ODE) uses the Expenditure Flow Model (EFM) to report per student spending for Ohio's schools. The EFM uses districts' year-end financial data to organize expenditure data into meaningful and comparable categories related to the education of students. School districts often manage some funds unrelated to the instruction of K-12 students, and as a result, not all expenditures accounted for by a school district are included in the model. District-level expenses for each expenditure type are reported on a per student basis.

**Table 2-2** compares MELSD's EFM expenditures with the peer averages on a per student basis.

**Table 2-2: FY 2007-08 Expenditure per Student Comparison**

Expenditure Area	MELSD Per Student	Peer Average Per Student	Per Student Difference	% Difference
Administration	\$1,141	\$1,077	\$64	6.0%
Building Operations	\$1,756	\$1,657	\$99	5.9%
Staff Support	\$129	\$109	\$20	18.8%
Pupil Support	\$857	\$822	\$35	4.3%
Instruction	\$4,850	\$4,723	\$127	2.7%
<b>Total</b>	<b>\$8,733</b>	<b>\$8,388</b>	<b>\$345</b>	<b>4.1%</b>

Source: ODE EFM

As **Table 2-2** shows, MELSD spent 4.1 percent more per student than the peer average in FY 2007-08. The per-pupil cost for administration, which includes the Superintendent and Treasurer's Offices and building level administrators, is 6.0 percent above the peer districts. In addition to having an experienced team of administrators, which increases compensation levels, employees included in this expenditure area receive an additional retirement benefit (see **human resources**). Additionally, per-pupil building operation expenditures are above the peer average. The major expenditures within this area include plant operation and maintenance, and pupil transportation (see **facilities** and **transportation**). The greatest variance between MELSD and the peers is in staff support, which includes professional development and instructional improvement. While it is the smallest expenditure area, MELSD spent 18.8 percent more per

<sup>3</sup> The remaining 7.3 mills of the effective tax rate include 2.3 mills and 5.0 mills for capital improvements and bond retirement, respectively. Millage for bond retirement is not affected by tax reduction factors.

student than the peers. Expenditures in pupil support were largely made from federal grant funds, which do not impact the District's General Fund solvency.

The implementation of the performance audit recommendations will help the District identify opportunities for greater efficiency and potential reductions, which will help bring spending more in line with the peer Districts (see **R2.11**).

While the EFM is designed to capture the total cost incurred by school districts to educate students, some of the monies included in **Table 2-2** are restricted grant and are not included in the forecast presented in **Table 2-1**. Therefore, **Table 2-3** compares MELSD's FY 2007-08 General Fund operating revenues and expenditures by source and object with the peer averages.

**Table 2-3: General Fund Revenue and Expenditure per Student Comparison**

	MELSD FY 2006-07		MELSD FY 2007-08		Peer Average FY 2007-08	
Average Daily Membership	1,249		1,220		1,071	
	S Per ADM	% of Total	S Per ADM	% of Total	S Per ADM	% of Total
Property & Income Tax	\$3,056	39.3%	\$3,715	42.3%	\$3,851	43.0%
Intergovernmental Revenues	\$4,201	54.0%	\$4,423	50.4%	\$4,410	48.1%
Other Revenues	\$521	6.7%	\$646	7.4%	\$840	8.9%
<b>Total Revenue</b>	<b>\$7,778</b>	<b>100.0%</b>	<b>\$8,783</b>	<b>100.0%</b>	<b>\$9,100</b>	<b>100.0%</b>
Wages	\$4,503	56.7%	\$4,823	55.5%	\$5,135	58.9%
Fringe Benefits	\$1,506	19.0%	\$1,557	17.9%	\$1,782	20.5%
Purchased Services	\$1,091	13.7%	\$1,251	14.4%	\$976	11.1%
Supplies & Textbooks	\$233	2.9%	\$352	4.1%	\$361	4.1%
Capital Outlays	\$53	0.7%	\$31	0.4%	\$103	1.2%
Debt Service	\$0	0.0%	\$0	0.0%	\$24	0.2%
Miscellaneous	\$126	1.6%	\$155	1.8%	\$230	2.6%
Other Financing Uses	\$426	5.4%	\$526	6.1%	\$138	1.6%
<b>Total Expenditures</b>	<b>\$7,938</b>	<b>100.0%</b>	<b>\$8,696</b>	<b>100.0%</b>	<b>\$8,734</b>	<b>100.0%</b>

**Source:** MELSD and the peer districts' 4502 and SF-3 reports

**Note:** Totals may not sum due to rounding.

When examining General Fund expenditures, as shown in **Table 2-3**, MELSD is below the peer average in total revenues and total expenditures per student. In certain areas, though, such as purchased services and other financing uses, MELSD's expenditures per student are higher than the peers. In FY 2007-08, the District spent 28.2 percent more per student on purchased services than the peers. The largest expenditure within the purchased services category, which accounted for 45.1 percent of the total, was tuition expenses for students who enroll in other school districts each year, an area largely outside the District's control. Other significant expenditures included property services and utilities, which reflect the District's heavy reliance on the use of contracted services (see **facilities** and **transportation**). Similarly, the District is spending 282.0 percent more than the peers in the category of other financing uses, which is entirely composed of transfers and advances out of the General Fund (see **R2.2**). While below the peer district average,



revenues and expenditures increased between FY 2006-07 and FY 2007-08. The passage of an additional income tax contributed to the 12.9 percent increase in General Fund revenues. Expenditures increased as the result of wage and step increases, health insurance costs, a higher number of District students attending other schools, and District textbook purchases.

As part of the performance audit, expenditures not governed by contracts, negotiated agreements or statutory requirements were also examined as MELSD has the ability to control some of these expenditures over the short-term. These controllable expenditures were, in total, 10.6 percent less than the peers, although specific categories like property services and fleet maintenance were higher than the peers. Adjustments to these line items could yield cost savings and are examined in greater detail in the **facilities** and **transportation** sections.

### *Food Service*

MELSD's food service operation is organized as an enterprise operation, which means it is intended to be self-funded, relying on charges for services to support the costs of the operation.<sup>4</sup> The District's food service operation is comprised of on-site kitchens at the K-8 facility and the high school. Head cooks in each kitchen are responsible for day-to-day operations including menu planning and purchasing. The Assistant Principal at the High School serves as the District's food service coordinator and has limited responsibility in the management of the operation.

**Table 2-4** illustrates MELSD's financial performance for FY 2005-06 through FY 2007-08.

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<sup>4</sup> However, ORC § 3313.81 stipulates that foods service operations may not be used to make a profit.

**Table 2-4: MELSD Food Service Fund, Three-Year History**

	FY 2005-06	FY 2006-07	% Variance	FY 2007-08	% Variance	3 Year Variance
<b>Revenue</b>						
Student Charges	\$311,424	\$308,807	(0.8%)	\$310,470	0.5%	(0.3%)
Earnings on Investments	\$2,192	\$3,879	77.0%	\$4,501	16.0%	105.3%
State Grants-in-Aid	\$1,579	\$1,429	(9.5%)	\$1,799	25.9%	13.9%
Federal Grants-in-Aid	\$66,955	\$79,855	19.3%	\$78,182	(2.1%)	16.8%
Refund of Prior Year's Expenditures	\$0	\$0	n/a	\$2	n/a	n/a
<b>Total Revenue</b>	<b>\$382,150</b>	<b>\$393,971</b>	<b>3.1%</b>	<b>\$394,954</b>	<b>0.2%</b>	<b>3.4%</b>
<b>Expenditures</b>						
Personal Services - Salaries	\$158,182	\$147,303	(6.9%)	\$148,853	1.1%	(5.9%)
Employees' Retirement and Insurance	\$56,381	\$46,707	(17.2%)	\$48,697	4.3%	(13.6%)
Purchased Services	\$6,884	\$5,433	(21.1%)	\$6,284	15.7%	(8.7%)
Supplies and Materials	\$136,339	\$152,753	12.0%	\$169,848	11.2%	24.6%
Capital Outlay	\$0	\$0	n/a	\$202	n/a	n/a
Other Objects	\$786	\$822	4.6%	\$822	0.0%	4.6%
<b>Total Expenditures</b>	<b>\$358,572</b>	<b>\$353,019</b>	<b>(1.5%)</b>	<b>\$374,707</b>	<b>6.1%</b>	<b>4.5%</b>
<b>Revenues Over (Under) Expenses</b>	<b>\$23,579</b>	<b>\$40,952</b>	<b>73.7%</b>	<b>\$20,248</b>	<b>(50.6%)</b>	<b>(14.1%)</b>
Beginning Fund Balance	\$36,623	\$60,202	64.4%	\$101,154	68.0%	176.2%
Ending Fund Balance	\$60,202	\$101,154	68.0%	\$121,402	20.0%	101.7%

**Source:** MELSD FY 2005-06 through FY 2007-08 year-end financial and federal claim reimbursement reports.

**Note:** The Federal Grants-In-Aid line was adjusted to reflect the amount MELSD claimed, rather than the amount received each fiscal year because of regular delays in receiving federal reimbursements.

As **Table 2-4** illustrates, MELSD has maintained a positive operating budget for the past three fiscal years. Over this time, it has reduced labor and employee retirement and insurance costs, and increased total revenues. The largest increase in expenditures was related to supplies and materials, which increased 24.6 percent over the last three fiscal years. While MELSD's food service operation has not required transfers or advances from the General Fund, the District does not forecast projected revenues or expenditures or tie operations to a strategic or operational plan (see **R2.8**).

As a component of the performance audit, several measures of operational efficiency were developed for MELSD's food service operation. **Table 2-5** shows adjusted financial data for FY 2007-08 and compares MELSD's Food Service Fund revenues and expenditures with the peers on a per meal equivalent basis.<sup>5</sup>

<sup>5</sup> 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 2-5: Food Service Operating Statistics Comparison FY 2007-08**

	MELSD	Peer Districts	% Variance
Meal Equivalents Served	149,051	128,473	16.0%
<b>Revenues per Meal Equivalent</b>			
Operating Revenue	\$2.08	\$2.14	(2.6%)
Non-Operating Revenue	\$0.57	\$0.51	12.2%
<b>Total Revenue</b>	<b>\$2.65</b>	<b>\$2.64</b>	<b>0.2%</b>
<b>Expenditures per Meal Equivalent</b>			
Salaries	\$1.00	\$0.99	1.3%
Fringe Benefits	\$0.33	\$0.44	(24.9%)
Purchased Services	\$0.04	\$0.07	(38.7%)
Supplies and Materials	\$1.14	\$1.06	7.8%
Capital Outlay	\$0.00	\$0.01	(81.2%)
Other	\$0.01	\$0.02	(74.7%)
<b>Total Expenditure</b>	<b>\$2.51</b>	<b>\$2.58</b>	<b>(2.4%)</b>
<b>Total Gain or (Loss)</b>	<b>\$0.14</b>	<b>\$0.07</b>	<b>97.1%</b>

Source: MELSD, peer districts, and ODE.

Note: Totals may not sum due to rounding.

As **Table 2-5** indicates, MELSD is preparing a greater number of meal equivalents than the peers at a lower cost per meal equivalents. Operating revenue in the Food Service Fund is composed of student charges for paid and reduced priced meals, a la carte sales. Non-operating revenue includes federal reimbursements for participation in the National School Lunch Program, State grants-in-aid, and earnings on investments. **Table 2-5** indicates that total revenue is in line with the peers on a per meal equivalent basis.

In addition, MELSD spends less per meal equivalent in total compensation (salaries and fringe benefits.) It also spends less than the peer average on purchased services; however, utilities are not charged back to the Food Service Fund (see **R2.10**). MELSD's costs for supplies and materials are significantly higher than the peer average on a per meal basis. However, the District reports a net gain of \$0.14 per meal equivalent.

Meals per Labor Hour (MPLH) is an industry standard used to measure the productivity and efficiency of a food service operation. The measurement is calculated by dividing the total labor hours worked by the total meal equivalents served per day at each building in a district. The industry standard is then applied to each building.<sup>6</sup> In MELSD, both of its kitchens were slightly less efficient than the standard. However, staffing levels are such that the difference equated to only 2.8 labor hours per day. On the other hand, a comparison of participation rates in the food service program at MELSD and the peers indicated that District participation rates are below the peer average (see **R2.9**). Acting on opportunities to improve participation rates would help support the long-term financial viability of MELSD's food service operations.

<sup>6</sup> The industry standard, found in *School Food Service Management for the 21st Century* (Pannell-Martin, 1999), assumes a greater level of productivity the greater the level of meal equivalents served.

## **Financial Systems Audit Objectives**

The following is a list of the questions used to guide the evaluation of financial systems functions at MELSD:

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How do the District's revenue and expenditures per student compare with the peer districts?
- Does the District have comprehensive financial policies and procedures that meet GFOA recommended practices?
- Does the District's five-year forecast reasonably and logically project the District's future financial situation?
- What is the likely financial position of the District based on an updated set of assumptions and the implementation of the performance audit recommendations?
- 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 recommended practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that meet recommended practices?
- Does the District effectively manage payroll operations?
- What is the financial status of the District's Food Service Fund?
- How can the District improve the efficiency and performance of its food service operation?
- Does food service management effectively use data to make strategic plans and operational decisions?

The District's financial data was determined to be reliable. In addition, the District's strategic plan, purchasing handbook, payroll process, and meal prices met recommended practices or benchmark levels.

## Recommendations

### *Policies and Procedures*

**R2.1 MELSD should develop and maintain comprehensive policies and procedures to govern its operations. Complete and up-to-date policies and procedures in key operational areas will ensure that District administrators, employees, and other stakeholders have a clear understanding of the processes in use. Furthermore, policies and procedures serve as a readily available resource for the District's accepted approach to day-to-day operations.**

MELSD has Board-approved policies. However, in a number of areas, the District could benefit from additional formal policies and procedures, which it has not yet developed, but which are considered leading practices or industry standards. Among these, MELSD should consider developing the following:

- **A comprehensive set of financial policies:** The implementation of financial policies, tailored specifically to MELSD and its operations, will assist the District in managing its limited resources and help ensure sound financial management. *Best Practices in Public Budgeting* (GFOA, 2000) recommends governments develop comprehensive financial policies, which should be used as an integral part of the development of the budget, as well as capital and financial plans. While the District has implemented financial management policies for student fees, fines, and charges; investments and borrowing; and fiscal planning and budget preparation, it has not developed policies for one-time and unpredictable revenues; stabilization funds; and contingency planning.
- **An enhanced ethics policy:** Adopting a more comprehensive ethics policy would 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, comprehensive ethics policies will help ensure that employees' actions are always in the best interest of the District and help the District avoid any appearance of impropriety. The Ohio Ethics Commission has developed a sample ethics policy for local governments, which outlines specific restraints on employee conduct.<sup>7</sup> While the District has an ethics policy in place, and there is no evidence of unethical behavior among administrators and staff, enhancing policies to include additional elements of leading practices will help ensure that employees are aware of the guidelines for appropriate behavior when acting on behalf of the District.

<sup>7</sup> The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at [http://www.ethics.ohio.gov/ModelEthicsPolicy\\_localagencies.html](http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html)

- **A financial forecasting procedure:** A formal procedure on financial forecasting should outline preparation timetables, forecast assumptions and methodologies, and the process used to update existing forecasts. In addition, the forecasting policy should identify all participants in the forecasting process and include guidance and a timeline for how and when those participants should review the forecast for accuracy. *Financial Forecasting in the Budget Preparation Process* (GFOA, 2001) recommends that a forecast, along with its underlying assumptions and methodologies, should be clearly stated and made available to participants in the budget process. Moreover, *Use of Cash Flow Forecasts in Operations* (GFOA, 2008) notes that a government's forecast preparation process should be organization-wide and, as such, all operating departments should be involved in developing reasonable expectations of planned expenditures. Collaborative forecasting allows for more accurate measurement and prioritization, relative to governmental goals, of likely resource inflows and outflows. The Treasurer does not use software programs or maintain spreadsheets that would support the development of a more detailed and accurate forecast. Implementing a formal forecasting procedure, which includes a higher level of support for projecting line items, would aid the District in producing forecasts that are more meaningful and help the Treasurer more easily develop different scenarios for the District's finances. This is particularly important when considering the current challenges in the economic climate (see **R2.3**).
- **A policy for non-routine transportation service:** The District should develop and implement a policy and procedure outlining the process for recouping the cost of non-routine transportation services. Specifically, the Board should approve a policy meeting the requirements of OAC 3301-83-16(B)<sup>8</sup> on recovering the operational costs incurred in non-routine transportation, including reimbursements to cover driver salaries and benefits, fuel, maintenance, service, supervision and insurance. Implementing a policy and procedure for recouping the cost of non-routine transportation services ensures compliance with the OAC, and that non-routine transportation costs are fully recovered. This not only reduces General Fund transportation expenditures, but also better illustrates the true costs of certain aspects of program operations (e.g. extracurricular activities.) In addition, the District should develop a procedure to exclude all stipulated non-routine transportation operational and labor costs from the T-2 report as required by ODE. To accomplish this, MELSD should consider applying the percentage of non-routine miles out of total miles to its transportation costs. Excluding all non-

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<sup>8</sup> OAC § 3301-83-16 defines the non-routine use of school buses as "transportation of passengers for purposes other than regularly scheduled routes to and from schools." Traditionally, districts use school buses to transport students for educational field trips, as well as athletic teams, band groups, and other school groups to contests or functions in which the teams or groups participate. There are limitations to a district's discretion as to the non-routine use of school buses.

routine transportation operational and labor costs ensures transportation costs are accurately reported to ODE on the T-2 report and are not overstated.

**R2.2 The District should implement the recommendations and remedies for non-compliance citations identified in recent financial audit management letters. Rectifying weak internal controls or areas of non-compliance identified in its financial audits presents MELSD with the opportunity to improve these areas of operations. Moreover, implementing recommended controls would assist the District in better managing impending financial challenges.**

In the District's most recent financial audit, which covered FY 2006-07, MELSD received an unqualified opinion of its financial records, indicating no material issues of non-compliance or significant deficiencies in internal controls. The management letter accompanying the financial audit, which typically addresses areas of minor concern, identified two areas of non-compliance and issued one recommendation. While not representing material instances of noncompliance or reportable internal control conditions, the management letter contained recommendations on how the District could improve internal controls and compliance. These are described below.

The first non-compliance issue concerns the encumbrance of expenditures. The financial audit found that funds for purchases were not properly encumbered (or set aside for the purchase) prior to entering into an obligation to make a purchase. To remedy this situation, MELSD must ensure that all expenditures are properly certified prior to making purchases or that an exception is used. Consistently using the Board-approved requisition and purchase order process, where employees must receive approval from the Superintendent and Treasurer prior to making purchases, would ensure this citation is resolved (see **R2.5**).

The second non-compliance issue concerns transfers. The Treasurer did not properly receive approval from the Board prior to transferring monies from one fund to another. Rather, the Board voted to give the Treasurer discretion in making transfers between funds. However, this practice violates State law, which requires Board approval for each instance when monies are transferred between funds.

Finally, the management letter recommended the District implement stricter reporting requirements for cash collected at extra-curricular events. More rigorous reporting would ensure a higher level of accuracy in the reconciliation between sales and the cash received.

The above-mentioned non-compliance citations have appeared repeatedly in annual financial audits, but the District has not changed its practices. Although the findings do not present areas of material weakness, the District's financial management practices



could be improved and material weaknesses avoided by implementing stronger internal controls and adhering to established policies and State laws. Addressing the citations and recommendations in its financial audit should be a priority for the District, especially considering its financial condition.

### *Financial Operations*

**R2.3 MELSD should revise its projections for personnel services to incorporate step increases and realistic negotiated wage increases for FY 2011-12 and FY 2012-13. Moreover, the Treasurer should revise the methodology for projecting employee retirement and insurance benefit expenditures. The forecast should be updated to reflect expected increases in insurance costs. By failing to include increases in personnel services and employee retirement and insurance benefits, MELSD is presenting an overly optimistic view of future obligations.**

Employee compensation includes personnel services, employee retirement, and insurance benefits, and is the largest group of expenditures for the District. In FY 2007-08, these areas represented 78.1 percent of total expenditures - 59.0 percent was attributed to personnel services and the other 19.1 percent to employee retirement and insurance benefits. The Treasurer uses negotiated wage increases, as well as an estimate of step increases, to forecast future wage and benefit expenditures. However, the Treasurer forecasts these lines in aggregate, rather than projecting each employee's salary and benefits for the five years of the forecast.

The Treasurer projected wage increases of 2.5, 2.75, and 3.0 percent for the first three years of the forecast based on negotiated agreements, which run from FY 2008-09 through FY 2010-11. Similarly, the Treasurer indicated step increases of 0.2 percent were included in each year of the forecast; however, when auditors examined the forecast, increases of 2.4, 0.05, and 0.2 percent were noted in the first three years of the forecast respectively.<sup>9</sup> Moreover, after these first three years of the forecast, the District has not included increases in personnel services in the remaining two years of the projections. The Treasurer indicated his preference not to forecast wage and step increases beyond what is contained in negotiated agreements, considering the District's financial condition and its likely inability to afford increases in outlying years. Therefore, personnel services projections were flat-lined for the final two years of the forecast.

In addition, the Treasurer applied the 2007-08 ratio of benefits as a percentage of personnel services (32.2 percent) to the forecast. Thus, the Treasurer projected that employee retirement and insurance benefits would increase at the same rate as personnel services expenditures, which also means that the forecast includes no increases in these

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<sup>9</sup> The combined effect of steps and negotiated wage increases for these forecast years are 4.9, 2.8 and 3.2 percent.

areas during the last two years of the forecast. While some expenditures contained within employee retirement and insurance benefits, such as retirement contributions and workers compensation, are directly linked to wages, health insurance expenditures are independent of any increases in wages. Regardless, some inflation – either related to increases in wages or to economic drivers – will most likely occur in this line item in the remaining two years of the forecast. Though projections for outlying years are less reliable, a reasonable increase should be included to illustrate the impact of inflation on MELSD’s future financial condition.

AOS Technical Bulletin 98-015 states that when making assumptions for personnel services and employees’ retirement/insurance benefits,

“The amounts for salaries and benefits should be based on existing negotiated agreements. For periods beyond the current agreements, historical patterns regarding salary and benefit increases should be used. Do not overlook substitutes and extended service. Any significant additions or deletions should be addressed, such as the opening of a new building, the implementation of an early retirement incentive program or a significant reduction in force.”

Over the previous six fiscal years, MELSD’s personnel service expenses have increased 3.0 percent annually and employee retirement and insurance benefits have increased 5.8 percent annually.

While the Treasurer asserts that the inclusion of forecasted increases would be interpreted by the bargaining units as planned wage increases during future negotiations, assuming no increases is overly optimistic. The current methodology fails to capture the District’s true financial picture in the later years of the forecast, as employees will receive step increases regardless of any negotiated wage increases, and benefit costs will likely increase based on prior trends.

Excluding reasonable increases in personnel services and employee retirement and benefits reduces the accuracy of the District’s forecast in the last two years of its forecast. Therefore, the Board, community members, and other stakeholders do not receive an accurate representation of the District’s financial position. Moreover, the step increases projected in the District’s forecast did not align with the Treasurer’s stated assumptions. The use of a spreadsheet or other planning document would aid the Treasurer in preparing the forecast with greater accuracy and detail. The Treasurer could project each employee’s salary and benefits over the course of the forecast, based on wage and step increases.

**Table 2-6** shows the District’s original forecasted amounts for personnel services and employee retirement and insurance benefits (ERIB) over the duration of the forecast period, as well as a revised projection based on the methodology described above. These

revised projections are also incorporated into the financial recovery plan shown in **Table 2-7**.

**Table 2-6: Revised Personnel Services and ERIB Projections**

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Personnel Services</b>					
<b>District Assumption - Personnel Services</b>	\$6,177,135	\$6,350,095	\$6,553,298	\$6,553,298	\$6,553,298
<b>AOS Assumption - Personnel Services<sup>1</sup></b>	\$6,177,135	\$6,464,910	\$6,784,743	\$6,953,576	\$7,120,402
<b>Difference- \$</b>	\$0	\$114,815	\$231,445	\$400,278	\$567,104
<b>Difference- %</b>	0.0%	1.8%	3.5%	6.1%	8.7%
<b>ERIB</b>					
<b>District Assumption - ERIB<sup>2</sup></b>	\$1,995,215	\$2,051,081	\$2,116,715	\$2,116,715	\$2,116,715
<b>AOS Assumption - ERIB</b>	\$2,022,722	\$2,114,001	\$2,212,651	\$2,286,881	\$2,362,710
<b>Difference- \$</b>	\$27,507	\$62,920	\$95,936	\$170,166	\$245,995
<b>Difference- %</b>	1.4%	3.1%	4.5%	8.0%	11.6%
<b>Forecast Impact</b>					
<b>Net impact on Forecast</b>	<b>(\$25,507)</b>	<b>(\$177,735)</b>	<b>(\$327,381)</b>	<b>(\$570,444)</b>	<b>(\$813,099)</b>
<b>Revised Ending Fund Balance</b>	<b>\$319,000</b>	<b>(\$51,000)</b>	<b>(\$849,000)</b>	<b>(\$1,950,000)</b>	<b>(\$3,363,000)</b>

Source: MELSD October 2008 forecast and assumptions, bargaining agreements, and FY 2008-09 personnel tables.

<sup>1</sup> AOS assumptions include average step increases forecasted for FY 2009-10 through FY 2012-13 as well as negotiated wage increases in FY 2009-10 and FY 2010-11. FY 2011-12 and FY 2012-13 include a 1.0 percent wage increase based on historical increases in personnel services expenditures.

<sup>2</sup> AOS assumptions for ERIB include retirement expenses and medical and other insurance expenses. Retirement expenditures, which are directly related to personnel services increase at the same rate as personnel services expenditures. Medical and other insurance expenditures were forecasted based on historical increases of 4.3 percent.

**R2.4 MELSD should enhance the content on its website to provide relevant financial information, including the five-year financial forecast and budget, to parents, community members, and other stakeholders. By making financial information available on its website, MELSD would help facilitate a greater comprehension of its financial condition while minimizing the costs associated with disseminating this information. Moreover, improved information sharing may help MELSD increase community involvement in the District and encourage stakeholder feedback.**

MELSD uses its website to disseminate information to staff, students, parents, community members, and other stakeholders. The website includes the District's strategic plan, information regarding Board operations, proposed ballot issues, and results of the District's annual report card. In addition, the Superintendent publishes a bi-weekly e-newsletter, which includes information on upcoming events and District accomplishments, as well as other relevant topics. The website, however, does not include any financial information, such as the five-year forecast or annual budget.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government should publish its budget documents and other financial reports directly on the organization's website. Furthermore, the GFOA notes that by effectively using its website, an organization can realize a number of benefits, including increased public awareness, increased public usage of the information, and improved availability of information for use in public analysis.

The Westerville City School District's website provides its stakeholders with several key information sources pertaining to the District's operations, including the FY 2008-09 tax budget and five-year forecast; historical financial reports; property tax, millage, and valuation information; historical costs per student; and a glossary of school financial terms. Moreover, Wayne Trace Local School District's website includes an annual financial report illustrating funding sources, comparisons with neighboring school districts, and expenditures by object and function. Finally, Lebanon City School District publishes monthly financial reports on its website, which include a variety of data such as expenditures to date, current budget, historical comparisons by object, historical revenue and expenditure charts, salaries and benefits as a percent of revenues, and bank reconciliations.

While the Treasurer indicated that community members do not regularly request financial information, expanding the District's website to incorporate financial information similar to the information included on the aforementioned school district websites would allow MELSD to share more financial information at relatively little cost to the District. Increased access to financial data will help educate stakeholders about the District's financial situation and projected deficits, and potentially increase public awareness and support.

### *Purchasing*

**R2.5 The District should ensure that its purchasing policy is being followed and appropriate internal controls are implemented. District administrators should consistently require approval and certification of available funds prior to making purchases. MELSD's projected budget deficit increases the need to scrutinize all purchases.**

Board policy, administrative guidelines, and a comprehensive Requisition and Purchase Order Handbook govern the District's purchasing process. The Handbook is designed for District personnel who may make purchases and it details the step-by-step processes for creating and submitting requisitions. The process begins when a District employee seeking to make a purchase completes and submits a paper requisition to the department or building secretary. The Principal or Supervisor approves the purchase requisition and forwards it to the Superintendent and Treasurer for final review and approval. Following

the approval and certification of funds for the purchase, the Treasurer's Office generates a purchase order. Upon receipt of any goods or services, the purchaser signs the invoice to signify authorization to pay the claim.

An examination of the District's purchasing process revealed that District employees do not consistently follow Board-approved purchasing policies and procedures. Twenty percent of the purchases examined were made before the requisition and purchase order were processed, confirming that findings in prior financial audits (expenditures were not properly encumbered) remained unresolved. The District confirmed some invoices to bear a date prior to the date on the purchase order, and it is MELSD's practice to honor these invoices, draw up purchase orders, and pay for the purchase even though the purchaser did not obtain prior approval. Additionally, the District does not have a consistent process for approving invoices for payment. Building principals, secretaries, or the originator of the requisition complete some invoice approvals, while other invoice approvals and routine invoices for services remain unsigned or receive only verbal approval to process payment.

In its response to the audit, District administrators noted that it has consistently followed the purchasing policies associated with commodity purchasing for its food service program. It also participates in the Educational Purchasing Cooperative to obtain food related items.

According to *Enhancing Management Involvement with Internal Control* (GFOA, 2006), a sound framework of internal control is necessary to afford a reasonable basis for finance officers to assert the information they provide can be relied upon. In addition, GFOA recommends that financial managers periodically evaluate relevant internal control procedures to satisfy themselves that those procedures are adequately designed to achieve their intended purpose, have actually been implemented, and continue to function as designed. Based on the evidence collected in the audit, the internal controls over purchasing at MELSD do not function as designed and do not achieve their intended purpose.

Because the District has permitted employees to ignore the Board-approved requisition and approval process, MELSD cannot ensure funds are actually available for purchases and obligations, particularly in light of its projected financial condition. Implementing the recommended processes for reviewing internal controls will help the District enforce adherence to its policies and procedures, as well as evaluate their efficacy.

*Payroll***R2.6 The District should cross-train Treasurer's Office employees, with emphasis on the payroll process. This will help ensure continuity and consistency of service delivery in the absence of employees with extensive institutional knowledge.**

The Assistant Treasurer is the only employee in the District trained to process payroll through the Metropolitan Dayton Educational Cooperative Association (MDECA), the District's Information Technology Center (ITC). While the District has agreements with surrounding districts for payroll processing assistance in the sudden absence of the Assistant Treasurer, the consistency of the payroll process can be compromised when a non-district employee takes responsibility for the process. Moreover, this is a short-term solution and creates an imposition on neighboring districts.

According to the SHRM Information Center article, *Cross Training – Value in Today's Environment*, cross training can be beneficial to both the organization and its employees. Most importantly, cross training is invaluable if a jobholder leaves an organization, as a trained employee can perform critical duties until the position is filled. Moreover, small organizations can better accommodate their employee's time off for personal reasons with the implementation of cross training.

Cross training increases employees' knowledge and ability to perform different tasks, adds variety to employees' workday and new challenges to their jobs, and enhances future career opportunities within the organization. According to SHRM, most organizations identify the following benefits of cross training:

- Creates a more flexible and versatile workforce;
- Improves productivity;
- Allows for effective succession planning;
- Leads to better coordination and teamwork;
- Motivates the workforce and instills commitment;
- Enables employees to understand organizational goals and objectives;
- Supports implementation of family-friendly policies, such as accommodating paid leave;
- Increases retention and avoids recruiting costs; and
- Helps create a learning organization.

The implementation of cross training enables organizations to be prepared in the event of unplanned short or long-term absences, ensuring that job functions are performed with few repercussions to the organization. Moreover, the implementation of cross training

would provide MELSD with more flexibility in scheduling leave time and provide greater consistency in the payroll process in the event of employee absence.

**R2.7 MELSD should expand the use of direct deposit and approach bargaining unit representatives to request mandatory use of direct deposit and electronic pay stubs for all employees. By expanding the use of these practices, the District could improve the efficiency of the Treasurer's Office operations and reduce payroll costs. In addition, employees would benefit from ease of access to, and availability of historical pay stub information.**

**During the course of the audit, MELSD implemented Outlook Web Access. Employees can now receive payroll e-statements.**

The District offers voluntary direct deposit of payroll to all employees. Negotiated compulsory direct deposit has not been pursued because many senior employees prefer paper checks. Employees who elect for direct deposit have the option of choosing paper pay stubs or e-mail notifications. For the December 12, 2008 payroll, the District issued 187 checks, of which 108 were directly deposited (about 58 percent), and 79 were issued by paper check (about 42 percent.) Of those employees who elected for direct deposit, less than half (38) chose to receive an electronic pay stub via e-mail.

According to the National Automated Clearing House Association (NACHA)/Electronic Payment Association, direct deposits can be very beneficial to both the organization and its employees. The use of direct deposit reduces the potential for errors, simplifies account reconciliation, reduces the chance of fraud, and increases the efficiency of the payroll process. Businesses can save \$1.25 per payment through the elimination of manual check preparation and use of direct deposit. Furthermore, employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits because 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 because he or she can easily access their pay information from any computer with a browser and internet connection. In addition, 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 parties, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Coventry Local School District (Summit County) successfully negotiated a mandatory direct deposit program for all of its employees, and has consequently seen improvements and cost savings in its payroll operations. Implementation of compulsory direct deposit with electronic pay stubs at MELSD would streamline payroll operations in the Treasurer's Office and provide cost savings. However, if the District is not able to

negotiate mandatory direct deposit, it should consider requiring new employees to enroll in direct deposit and electronic pay stubs programs.

*Financial Implication:* If MELSD negotiates mandatory direct deposit and achieves savings of \$1.25 per payment, the District could potentially save about \$2,500 per year.

### *Food Service*

**R2.8 MELSD should develop a food service strategic plan that includes specific goals, objectives, and performance measures, a comprehensive Food Service Fund budget, and a five-year forecast for the Food Service Fund. Performance measures, such as cost per meal equivalent, participation rates, and meals per labor hour (MPLH), should be maintained to provide administrators with the data needed to identify areas for improvement and greater efficiency. Readily available budget and performance information will also assist management in ensuring the financial viability of the food service operations.**

The District does not have any forecasting or strategic planning instruments related to the food service operation. Board members receive monthly updates of revenues and expenditures within the Food Service Fund, and the administration examines estimated food costs and other expenses to determine meal prices. However, MELSD has not developed a process to formally forecast revenues and expenditures for the food service operation or identify long-term goals, strategies, and challenges facing the operation. Moreover, the District does not evaluate the performance of the food service operation. While measurements of performance, such as participation and cost per meal, are examined occasionally through management reports generated by the Ohio Department of Education's (ODE) Claims Reimbursement and Reporting System (CRRS), this informal process does not include a comparison of operational performance over time.

According to *Best Practices in Public Budgeting* (GFOA, 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 broad, long-range plans guide operations, they must be supplemented and integrated with short-term operations in order to achieve broader purposes.

Two important components of a strategic plan for the food service operation are a current-year budget and a long-range forecast. According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), a budget, when used as a plan for financial management, can help managers forecast revenue and expenses based on



prior years' data, estimates, and planned changes. The budget and forecast can also identify potential problems by analyzing actual financial activity and providing a basis for comparison. Furthermore, these plans and accompanying financial documents can set performance standards; help control erratic expenditures; and assess the affordability of planned purchases. Pannell-Martin also recommends forecasting revenue and expenditures over a five-year period for long-range planning. Forecasting can provide sufficient notice of emerging issues so they can be addressed.

Finally, performance measures can help identify operational goals and evaluate progress toward the achievement of those goals. The NFSMI, through a nationwide task force, identified five performance measures essential to evaluating school food service operation: (1) measures of profitability; (2) operating ratios; (3) meal and meal equivalent costs; (4) participation rates; and (5) measures of productivity.

The Springfield Local School District (Summit County) tracks the performance of the food service operation on a monthly basis and evaluates the operation's performance at the school and District levels. Measures used to analyze the food service operation include profits/losses, labor costs per meal, meals per labor hour (MPLH), food costs per meal, and the level of free and reduced lunches at the school level.

Expanding monthly reporting to include measurements of operational productivity, meal equivalent costs, and participation rates would aid MELSD in evaluating its food service operation and assessing future operational needs. Moreover, without a formalized food service strategy and budget, MELSD cannot evaluate the implementation and effectiveness of operational decisions. While the food service operation has not faced operational deficits or required General Fund support, improved planning will ensure the continued self-sufficiency of the Food Service Fund.

**R2.9 The District should work to increase school lunch participation at the high school, and track participation to ensure staffing levels are appropriate. As food service operations contain a fixed cost component, it is important for the District to maintain a sufficient participation rate in the school lunch program. Higher participation rates result in lower costs per meal.**

**Increased participation rates can be encouraged and measured through the implementation of a point of sale (POS) system. POS systems reduce wait time and can encourage greater use of free and reduced price school lunches. The full implementation of POS technology will also help MELSD collect operational and financial data that it can use to develop operational performance measures and create long-term plans (see R2.8).**

Food service operation revenues are derived from two major sources: student charges and federal reimbursements. Both of these revenue sources are directly related to the number of meals served. In FY 2007-08, the District's average daily participation in the National School Lunch Program, as a percentage of average daily attendance, was 6.2 percent below the peers. Further examination indicates that, while the K-8 facility has a 75.9 percent participation rate in reimbursable meals, only 42.7 percent of students at the high school purchase meals that are reimbursable through the National School Lunch Program. Another 32.1 percent of students at the high school participate in the school lunch program through the purchase of a la carte items. These purchases, however, cannot be counted for reimbursement.

MELSD uses a POS system at the K-8 facility, but does not use this technology at the high school. The expansion of POS technology to the high school will likely take place with the construction of the new high school in FY 2010-11.

According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), food service departments benefit from computerization that meets strict standards of accountability and produces various types of reports and detailed technical analyses for efficient management. The information needed to run a successful school food service program is extensive and varied. Some of the benefits of a good computerized system are:

- Increased efficiency and greater speed of data handling;
- More reliable, accurate information;
- More timely report processing;
- Improved inventory control;
- Improved management reports and analyses;
- Reduced food and labor costs; and
- Improved standardization.

An ideal POS system tracks history, customer count by day and by menu, the number of customers served by each station (line or server), and sales by lunch period.

By implementing a POS system District-wide, MELSD will be better equipped to track food service operational data. This data can be used for menu planning, making bulk purchases, guiding meal preparation, and establishing performance measures (see **R2.8**). Additionally, through the POS system, the process of manual data collection would be eliminated, which would significantly reduce the time required to prepare, check, and submit data to ODE for claim reimbursement.

The implementation of a POS system at the high school would also help increase participation. When a POS system is used, students can move through the café line more efficiently, and the system does not overtly identify students who qualify for free or

reduced priced lunches. If participation at the high school increased to the level of the peers and MELSD maintained its current lunchroom staff, it would meet industry MPLH standards and increase operating revenues. In the event participation rates do not increase, performance measures derived from the point of sale system can be used to adjust staffing levels to meet operational demands.

**R2.10 MELSD should ensure that all food service expenses are charged to the Food Service Fund. By allocating all food service expenses to the proper fund, a more accurate financial picture will be available which can improve decision-making related to revenue and program adjustments.**

The Treasurer assigns a portion of the salaries for the High School Assistant Principal (who also serves as the Food Service Supervisor) and Treasurer's Office Clerk/Cashier to the Food Service Fund, but does not charge a portion of benefits to the Fund. Based on District estimates of operation and consumption, the Treasurer also charges 10 percent of the propane cost for the K-8 building to the Food Service Fund. Other utility charges are not allocated to the food service operation.

According to *Measuring the Cost of Government Services* (GFOA, 2002), governments should measure the full costs of their services. For the food service operation ORC § 3313.81 emphasizes the need for this practice, stating:

“All receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposes shall be paid directly into and disbursed from the food service fund which shall be kept in a legally designated depository of the board. Revenues for the operation, maintenance, improvement, and purchase of equipment shall be provided by the food service fund, appropriations transferred from the general fund, federal funds, and from other proper sources.”

One method for calculating utility expenses is to take the total space occupied by the food service operation (including the kitchen, office, storage areas, and cafeteria) and calculate the percentage this space represents out of the total square footage of the school building. In many cases, schools have multi-purpose spaces that are used as cafeteria spaces, as well as auditoriums and/or gymnasiums. For these areas, the District should calculate the square footage based on the percent of time the space is used by the food service operation. Regardless, expenses for gas, electric, water/sewer, and refuse should all be allocated to the Food Service Fund using this calculation. For example, 6.8 percent and 1.8 percent of MELSD's facilities are occupied by the food service operation at the K-8 building and high school, respectively. Applying these percentages to MELSD's FY 2007-08 utility expenditures would have resulted in additional costs to the Food Service Fund (and corresponding savings to the General Fund) of approximately \$11,000.

Capturing all operational costs in the Food Service Fund will help MELSD better evaluate the efficiency and performance of the food service operation. This, in turn, will provide MELSD with a more accurate depiction of the costs of the food service operation and aid in planning and developing a food service forecast and strategic plan. Not including all of the costs associated with the food service operation in the Food Service Fund presents an inaccurate portrayal of the operation's financial condition.

*Financial Implication:* If the District allocates utility expenditures to the Food Service Fund on a prorated basis, purchased services would increase by approximately \$11,000 in the Food Service Fund and decrease by the same amount in the General Fund, based on FY 2007-08 data.

**R2.11 MELSD should consider implementing the recommendations in this performance audit to improve its current and future financial situation. Implementing the performance audit recommendations would offset projected deficits and help the District maintain a positive year-end fund balance through FY 2012-13. Enhancing general operating revenue and/or identifying additional savings beyond those included in this performance audit would permit MELSD to make less severe reductions in staff. To ensure it has the most current information, the District should update its forecast on a regular basis as critical financial issues arise.**

In order to address its projected deficit, MELSD must make reductions in its expenditures, generally through reductions in staff and program operations. **Table 2-7** demonstrates the effect of the performance audit recommendations on the October 2008 five-year financial forecast and ending fund balances, assuming that all of the recommendations contained in this audit are fully implemented.

**Table 2-7: Revised FY 2008-09 October Five-Year Forecast (in 000s)**

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenues:</b>								
General Property (Real Estate)	\$2,643	\$2,769	\$2,837	\$2,988	\$3,017	\$3,048	\$3,078	\$3,109
Tangible Personal Property Tax	\$220	\$161	\$111	\$69	\$0	\$0	\$0	\$0
Income Tax	\$743	\$886	\$1,585	\$1,978	\$1,997	\$2,017	\$2,038	\$2,058
Unrestricted Grants-in-Aid	\$4,765	\$4,786	\$4,821	\$4,794	\$4,842	\$4,890	\$4,939	\$4,989
Restricted Grants-in-Aid	\$56	\$45	\$47	\$47	\$48	\$48	\$49	\$49
Property Tax Allocation	\$366	\$410	\$505	\$602	\$671	\$685	\$649	\$614
Other Revenue	\$541	\$475	\$610	\$610	\$610	\$610	\$610	\$610
Other Financing Sources	\$227	\$193	\$202	\$207	\$205	\$207	\$209	\$211
Total Revenues and Other Financing Sources	\$9,562	\$9,724	\$10,719	\$11,295	\$11,392	\$11,506	\$11,573	\$11,640
<b>Expenditures:</b>								
AOS Revised Personnel Services	\$5,483	\$5,623	\$5,886	\$6,177	\$6,465	\$6,785	\$6,954	\$7,120
AOS Revised Employees' Retirement/Insurance Benefits	\$1,820	\$1,881	\$1,900	\$2,023	\$2,114	\$2,213	\$2,287	\$2,363
Purchased Services	\$1,506	\$1,376	\$1,527	\$1,603	\$1,683	\$1,768	\$1,856	\$1,949
Supplies and Materials	\$283	\$291	\$430	\$451	\$474	\$498	\$522	\$549
Capital Outlay	\$100	\$68	\$37	\$74	\$78	\$82	\$86	\$91
Other Objects	\$176	\$157	\$189	\$199	\$209	\$219	\$230	\$242
<b>Total Expenditures</b>	\$9,368	\$9,397	\$9,970	\$10,527	\$11,023	\$11,565	\$11,935	\$12,314
Other Financing Uses	\$353	\$531	\$642	\$739	\$739	\$739	\$739	\$739
<b>Total Expenditure and Other Financing Uses</b>	\$9,720	\$9,928	\$10,612	\$11,266	\$11,762	\$12,304	\$12,674	\$13,053
Performance Audit Recommendations	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<b>(\$859)</b>	<b>(\$888)</b>	<b>(\$909)</b>	<b>(\$929)</b>
<b>Result of Operations (Net)</b>	<b>(\$159)</b>	<b>(\$204)</b>	<b>\$107</b>	<b>\$29</b>	<b>\$489</b>	<b>\$90</b>	<b>(\$192)</b>	<b>(\$484)</b>
Beginning Cash Balance	\$746	\$587	\$384	\$490	\$519	\$1,008	\$1,097	\$905
Ending Cash Balance	\$587	\$384	\$490	\$519	\$1,008	\$1,097	\$905	\$421
Budget Reserve	\$192	\$212	\$205	\$200	\$200	\$200	\$200	\$200
<b>Ending Fund Balance</b>	<b>\$394</b>	<b>\$172</b>	<b>\$285</b>	<b>\$319</b>	<b>\$808</b>	<b>\$897</b>	<b>\$705</b>	<b>\$221</b>

Source: MELSD and AOS

Note: Totals may vary due to rounding

**Table 2-8** summarizes the performance audit recommendations reflected in the revised five-year forecast. Recommendations are divided into two categories: those requiring negotiation and those not subject to negotiation.

**Table 2-8: Summary of Performance Audit Recommendations**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Recommendations Not Subject to Negotiations</b>				
<b>R2.10</b> Charge a portion of utilities to the Food Service Fund	\$11,000	\$11,000	\$11,000	\$11,000
<b>R3.2</b> Eliminate 8.0 regular teaching FTEs	\$582,200	\$610,400	\$627,000	\$643,400
<b>R3.3</b> Eliminate 1.5 ESP FTEs	\$96,600	\$101,300	\$104,000	\$106,800
<b>R4.3</b> Subscribe to a CMMS System	(\$800)	(\$800)	(\$800)	(\$800)
<b>R5.2</b> Purchase routing software	(\$12,000)	(\$2,000)	(\$2,000)	(\$2,000)
<b>R5.4</b> Receive formal written quotes for bus insurance and bid the maintenance contract to obtain lower costs	\$40,000	\$40,000	\$40,000	\$40,000
<b>R5.6</b> Sell four spare buses	\$29,200	\$12,000	\$12,000	\$12,000
<b>Subtotal Not Subject to Negotiations</b>	<b>\$746,200</b>	<b>\$771,900</b>	<b>\$791,300</b>	<b>\$810,400</b>
<b>Recommendations Subject to Negotiations</b>				
<b>R2.7</b> Implement compulsory direct deposit	\$2,500	\$2,500	\$2,500	\$2,500
<b>R3.4</b> Eliminate the additional retirement benefit for administrators	\$53,400	\$56,000	\$57,400	\$58,800
<b>R3.5</b> Increase employee contributions toward medical premiums to 15 percent	\$44,500	\$44,500	\$44,500	\$44,500
<b>R3.6</b> Reduce the amount and the rate per \$1,000 of Life and accidental death and dismemberment insurance	\$3,000	\$3,000	\$3,000	\$3,000
<b>R4.5</b> Discontinue guaranteed custodial overtime for weekend building checks.	\$9,200	\$9,600	\$9,900	\$10,100
<b>Subtotal Subject to Negotiations</b>	<b>\$112,600</b>	<b>\$115,600</b>	<b>\$117,300</b>	<b>\$118,900</b>
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$858,800</b>	<b>\$887,600</b>	<b>\$908,600</b>	<b>\$929,300</b>

**Source:** AOS Performance Audit Recommendations

**Note:** Totals may vary due to rounding.

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# Human Resources

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## Background

This section of the performance audit focuses on the human resources (HR) functions of the Miami East Local School District (MELSD or the District). Operations were evaluated against leading practices, industry standards, and selected peer districts.<sup>1</sup> Comparisons were made for the purpose of developing recommendations to improve efficiencies and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. Recommended practices and industry standards were drawn from sources including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the State Employment Relations Board (SERB), and the Ohio Department of Administrative Services (DAS).

### *Organizational Structure*

MELSD does not have a separate department dedicated to human resource functions. The primary responsibilities are carried out by the Treasurer's Office and the Superintendent. The Treasurer's Office administers the District's employee benefit programs; helps negotiate and administer the collective bargaining agreements; manages the workers' compensation program; conducts payroll functions; and monitors the budget. The Superintendent oversees the activities that are used to recruit, select, and evaluate employees, and also helps negotiate and administer the collective bargaining agreements.

### *Staffing*

The District uses the Education Management Information System (EMIS) software to report student enrollment and staffing levels to ODE. Student enrollment is used in this audit to calculate the number of full-time equivalent (FTE) employees per 1,000 students.

**Table 3-1** shows the number of FTE employees per 1,000 students for MELSD compared to the peer districts average. Presenting staffing data in this manner reduces variances attributable to the size of the peers.

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<sup>1</sup> See **executive summary** for the full listing of the peer districts.

**Table 3-1: FY 2007-08 Staffing Comparison (FTEs per 1,000 Students)**

	MELSD	Peer Average	Differences
Administrators	7.11	7.06	0.05
Educational Staff	67.98	68.65	(0.67)
Technical Staff	2.51	3.55	(1.04)
Office / Clerical Staff	11.5	11.95	(0.45)
Crafts & Trades Workers	0.84	0.91	(0.07)
Custodians/Groundskeepers	5.64	6.56	(0.92)
Transportation	11.29	9.84	1.45
Food Service Workers	6.47	6.92	(0.45)
All Other Reported Personnel	1.88	2.05	(0.17)
<b>Total FTE Reported</b>	<b>115.22</b>	<b>118.49</b>	<b>(3.27)</b>

Source: MELSD and peer district FY 2007-08 EMIS staffing data as reported to ODE

**Table 3-1** illustrates that MELSD's is primarily at or below the peer average in each category with the exception of transportation staffing (see **transportation**). Although the District's staffing levels are in-line with the peer averages, it has not used a staffing plan (see **R3.1**) to determine the number of staffing needs based on State requirements (see **R3.2** and **R3.3**) and educational goals.

### Compensation

**Table 3-2** provides a comparison of MELSD's average salaries to the peer districts average.

**Table 3-2: FY 2007-08 Average Salaries Comparison**

	MELSD Average Salary <sup>1</sup>	Peer Average Salary	% Difference
Administrators	\$73,782	\$74,448	(0.9%)
Educational Staff	\$51,864	\$50,548	2.6%
Technical Staff	\$14,322	\$28,032	(48.9%)
Office / Clerical Staff	\$24,099	\$21,667	11.2%
Crafts & Trades Workers	\$23,587	\$41,131	(42.7%)
Transportation	\$16,627	\$11,796	41.0%
Service Worker <sup>2</sup>	\$25,308	\$22,426	12.9%
<b>Total Average Reported Salary</b>	<b>\$42,681</b>	<b>\$40,872</b>	<b>4.4%</b>

Source: FY 2007-08 average salaries from ODE EMIS report

<sup>1</sup> Average salary for MELSD does not include additional retirement benefits paid for by the District.

<sup>2</sup> Service workers include custodians, groundskeepers, and food service employees.

As shown in **Table 3-2**, MELSDs total average salaries are 4.4 percent higher than the peer average. The following further explains the areas in which MELSD average salaries are higher than the peer average:

- **Education Staff:** Sixty-nine percent of classroom teachers within the District have a master's degree. Twenty-five of the classroom teachers have been employed by the District for 10 years or more. The longevity and experience of its classroom personnel contribute to MELSD's higher average salaries.
- **Office / Clerical Staff:** Consists of 2.0 bookkeeper FTE, 6.75 clerical FTE, and 5.0 teaching aide FTE. One bookkeeper has been with the District for 19 years. Five full-time clerical staff have been employed by the District for more than 15 years and 2.0 teaching aide FTEs have been with the District for 10 years. In this case, longevity increases the salaries in this classification
- **Transportation:** Thirty-six percent of the District's bus drivers have been employed with the District for 10 years or more and longevity impacts salaries.
- **Service Workers:** Six out of the seven custodians have been employed with the District for 10 years or more which is reflected in higher salaries related to their tenure.

Furthermore, years of service, and in some cases education levels, are factors which directly impact average salaries. MELSD also provides additional retirement benefits to selected administrative positions (see **R3.4**). The additional retirement benefit amounts are not included in the average salary amounts listed in **Table 3-2**.

### *Benefits*

The District purchases medical, dental, and vision coverage through the Southwest Ohio Educational Purchasing Council. Certificated employees hired prior to July, 2005 contribute 10 percent toward premiums and certificated employees hired after July, 2005 contribute 20 percent. Classified employees contribute 10 percent toward medical, dental, and vision (see **R3.5**). **Table 3-3** shows the District's monthly insurance premiums compared to SERB and OEA.

**Table 3-3: FY 2007-08 Monthly Premium Comparison**

Type of Coverage	MELSD	SERB	Percent Variance	OEA	Percent Variance
<b>Medical</b>					
Single	\$343	\$424	(19.1%)	\$414	(17.2%)
Employee + kids	\$618	n/a	n/a	n/a	n/a
Family	\$872	\$1,060	(17.7%)	\$1,050	(17.0%)
<b>Dental</b>					
Single	\$25	\$39	(35.9%)	\$40	(37.5%)
Family	\$63	\$82	(23.2%)	\$70	(10.0%)
<b>Vision</b>					
Single	\$7	\$13	(46.2%)	\$9	(22.2%)
Family	\$16	\$18	(11.1%)	\$19	(15.8%)

**Source:** MELSD Treasurer's office, SERB 16<sup>th</sup> Annual Report on the Cost of Health Insurance in Ohio's Public Sector (2007), and the Ohio Education Association Survey of District and Educational Service Center Health Plans (2008).

As illustrated in **Table 3-3**, MELSD's monthly premium amounts are in-line with SERB and OEA. Employees who chose not to participate in the District's medical insurance plan are paid \$1,200 each year they are not enrolled, regardless of the plan type. The stipend is prorated based on the number of daily work hours and months the employee is not enrolled in the District's medical plan and is paid once per year. MELSD also provides life and accidental death and dismemberment (AD&D) insurance for its employees at no cost to the employee (see **R3.6**).

### *Negotiated Agreements*

The District's two main employee groups, certificated and classified personnel, are covered under collective bargaining agreements:

- **Miami East Education Association (MEEA) Agreement:** Membership in this collective bargaining unit includes all teachers and other professional certificated personnel.
- **Miami East Association of Support Professionals (MEASP) Agreement:** Membership in this collective bargaining unit includes all non-certificated school support personnel including maintenance and custodial staff; clerical staff; food service; educational aides; technology; and transportation.

The two collective bargaining agreements are effective for the period of July 1, 2008 through June 30, 2011. As part of the performance audit, certain contractual and employment issues were assessed and compared to Ohio law and industry benchmarks. Areas of analysis included

common contractual provisions such as holidays, sick leave accruals, vacation leave, evaluations, and daily work hours.

In the MEASP negotiated agreement, head custodians are permitted one hour of overtime, during November through March, to conduct building checks and bus drivers are allotted 30 minutes daily to fuel, clean, and inspect the buses. The custodian overtime is paid one and one-half the employee's regular rate of pay while the bus drivers charge the 30 minutes as regular time (see **R4.5 in facilities** and *Issues for Further Study in executive summary*).

### *Board Governance*

MELSD's Board of Education consists of five members elected by the community. The Board uses the District's web site to publicize Board meeting dates, highlights from Board meetings, and Board policies and procedures. The Board regularly reviews the District's policies and updates the policies on an as needed basis. The Board continually reviews its progress by completing annually evaluations of itself, the Superintendent, and the Treasurer.

### *Specialized Programs*

MELSD's special education program assists students with special needs. MELSD uses the Miami County Education Service Center (ESC) for psychological, vision, behavior health, and interpreter services. In addition to the students served by individual education plans (IEPs), the District developed an intervention program that allows it to provide students as young as kindergarteners with tools that can be used to increase their education levels. The District uses the intervention program to assist students while at the same time keeping the number of IEPs low. The intervention techniques have also helped the District to maximize its special education resources, which resulted in MELSD's FY 2007-08 special education expenditures being 9 percent below the peer average. Where possible, the District places special needs students into regular classrooms. The District's practices are in-line with best practices.

## **Human Resources Audit Objectives**

The following is a list of the questions used to evaluate the HR functions at MELSD:

- Is the District's allocation of personnel efficient and effective?
- 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 industry standards, State statute, and best practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education program for students with disabilities that maximize resources and are compliant with State and federal regulations?

The following areas were analyzed and determined to be assessments not yielding recommendations: District average salaries, health premiums and benefit levels, negotiated agreement negotiated agreements, District policies, trainings and evaluations.

## Recommendations

### *Staffing*

**R3.1 MELSD should develop a formal staffing plan to address current and future staffing needs. In doing so, the District should establish staffing allocations for administrative, certificated, and classified personnel. This will help ensure the District proactively addresses its staffing needs and aligns the overall mission with its financial condition.**

The District does not have a formal staffing plan. Certificated staffing levels are determined by the number of students enrolled in the various grade levels and no benchmarks are used to determine classified staffing levels.

In its response to the audit, MELSD noted the District has decreased the number of staff members across the District each year for the past five years. In addition, during the past four years, the District has reduced its staffing by two administrators and several interpreters and aides.

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. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) notes that the most important question for any organization is what type of workforce it will need in order to successfully implement its strategic mission. Once this question is answered, the organization can focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

Tulsa (OK) Public Schools has established an industry-recognized approach for developing a staffing plan. The Tulsa Public Schools staffing plan incorporates staff allocation factors such as state and federal regulations, workload measures, industry benchmarks, and staffing levels, as determined by its administration, for building configurations and enrollment. In this plan, Tulsa Public Schools benchmarks staffing based on general fund revenues to help maintain a focus on a balanced budget when considering school staffing levels. The plan is used as a guide to determine staffing levels on an annual basis, as well as mid-year, to determine if the staffing levels need to be modified based on actual enrollment.

Ohio school districts that use strategic staffing plans include Cincinnati City School District in Hamilton County and the Lakota Local School District in Butler County.

Cincinnati City Schools has developed a formal staffing plan that works to incorporate State requirements, contractual agreements, available resources, and educational goals into a process that includes central and site-based administrators and personnel. The staffing plan, linked to the District's student-based budgeting, employs a staffing template that includes recommended elements and serves as a planning tool by the district's Instructional Leadership Teams. Lakota Local Schools developed a formal staffing plan that determines the number of classified employees needed based on enrollment and workload measures

MELSD has not established a formal staffing plan and, as a result, may be inappropriately staffed within its various operational areas. Likewise, it may not be able to effectively tailor its staffing to changing conditions. By implementing a staffing plan and updating the plan on an annual basis, MELSD will be better prepared to make changes to staffing levels in response to its financial condition or other factors.

**R3.2 If financial conditions deteriorate, MELSD should consider eliminating 8.0 FTE classroom teaching positions, which would lower staffing levels to 18 percent above State minimums. If MELSD is unable to implement other cost saving recommendations in this performance audit, it may need to move closer to State minimum requirements for teacher staffing, in order to avoid future deficits.**

*HB 1 will impact the District's ability to make staffing reductions in certain areas.*

MELSD has 58.8 regular classroom teacher FTEs and its student teacher ratio is slightly lower than the peers. **Table 3-4** compares the District's classroom teacher staffing levels to the peer district average.

**Table 3-4: FY 2007-08 Regular Classroom Teachers**

	MELSD	Peer Average	Difference
Regular Classroom Teachers (FTE)	58.8	50.5	8.3
Regular Student Population	1,069	972	97.0
% of Time Student Population	1,196	1,091	105.0
<b>Regular Students to Regular Teacher Ratio</b>	<b>18.2</b>	<b>18.4</b>	<b>(1.1%)</b>
<b>% of Time Students to Regular Teacher Ratio</b>	<b>20.3</b>	<b>20.5</b>	<b>(1.0%)</b>
<b>Teachers Above/(Below) Peer Districts based on regular student population</b>			<b>0.7</b>
<b>Teachers Above/(Below) Peer Districts based on % of time population</b>			<b>0.5</b>
<b>Comparison to State Minimum Requirements</b>			<b>FTE Teachers</b>
Regular Classroom Teachers Employed			58.8
State Minimum Required Classroom Teachers			42.8
Teachers Above/Below State Minimum Requirement			16.0

Source: ODE EMIS FY 2007-08 Reports



OAC § 3301-35-05 requires districts to maintain district-wide students-to-teacher ratios of at least 1.0 classroom teacher FTE for every 25 students in the regular student population as defined in ORC § 3317.023. Classroom teachers are licensed employees who provide direct instruction to pupils, excluding teachers funded from money paid to the district from federal sources; educational service personnel; and vocational and special education teachers. Regular student population is calculated from the average daily membership (ADM) but does not include students spending time in other classes such as vocational or special education. The District could reduce regular classroom teacher levels by approximately 8 FTEs and still comply with OAC requirements.

*Financial Implication:* The reduction of 8.0 FTE classroom teachers could save MELSD approximately \$582,000 in salaries and benefits in FY 2009-10 while keeping the District 18 percent above the State minimum requirements. The savings is based on an average salary of \$55,200. This estimate of savings will increase if the reductions occur through retirement or through the voluntary separation of more experienced or higher salaried staff.

- R3.3 If financial conditions deteriorate, MELSD should consider eliminating 1.5 educational service personnel (ESP) FTEs to achieve a staffing level comparable to the peer average. MELSD could make these reductions and still be 75 percent above the State minimum requirements. If MELSD is unable to implement other cost saving recommendations in this performance audit, it may need to move closer to State minimum requirements for ESP staffing levels to avoid future deficits.**

*HB 1 will impact the District's ability to make staffing reductions in certain areas.*

**Table 3-5** compares the District's ESP to the peer districts.

**Table 3-5: FY 2007-08 Educational Service Personnel (ESP) Comparison**

	MELSD	Peer Average	Difference
ESP Teachers <sup>1</sup>	6.8	4.7	2.1
Counselors	3.0	2.0	1.0
Librarian / Media Specialist	1.0	1.0	0.0
School Nurses	0.0	0.3	(0.3)
<b>Total Educational Service Personnel (FTE)</b>	<b>10.8</b>	<b>7.9</b>	<b>2.9</b>
Regular Student Population	1,069	972	97
<b>Total ESP per 1,000 Regular Students</b>	<b>10.1</b>	<b>8.7</b>	<b>1.4</b>
Total Students	1,196	1,091	105
<b>Total ESP per 1,000 Students</b>	<b>9.0</b>	<b>7.8</b>	<b>1.2</b>
<b>ESP Above/(Below) Peer Districts</b>			<b>1.5</b>
<b>Comparison to State Minimum Requirements</b>			<b>FTE's</b>
Total Educational Service Personnel (ESP)			10.8
State Minimum Required ESP			5.3
ESP Above State Minimum Requirement			5.5

Source: ODE EMIS Reports for FY 2007-08 and OAC § 3301-35-05

<sup>1</sup> ESP teachers include K-8 art, music, and physical education teachers.

As illustrated in **Table 3-5**, MELSDs ESP per 1,000 students is above the peer average. The District is 5.5 FTE ESP above the State minimum requirement. In accordance with OAC § 3301-35-05, a minimum of 5.0 FTE ESP shall be employed district-wide for each one thousand students in the regular student population as defined in ORC §3317.023. Educational service personnel shall be assigned to at least five of the eight following areas: counselor, library media specialist, school nurse, visiting teacher, social worker and elementary art, music and physical education. Educational service personnel assigned to elementary art, music and physical education shall hold the special teaching certificate or multi-age license in the subject to which they are assigned.

In its response to the audit, MELSD officials noted that during the past two years, the District has eliminated two aides. However, the recommended reductions of ESP are in addition to the reductions in aides already made by the District.

By reducing the number of ESP, the District will bring the per 1,000 student ratio more in-line with the peer average while providing financial savings to the District. Reductions to State minimums, if needed, would likely have an impact on the District's programs and, therefore, should be carefully analyzed.

*Financial Implication:* The reduction of 1.5 FTE ESP teachers could save MELSD approximately \$96,600 in salaries and benefits in FY 2009-10 while keeping the District 75 percent above the State minimum requirements. This estimate of savings will increase

if the reductions occur through retirement or voluntary separation of more experienced or higher salaried staff.

### *Compensation*

**R3.4 MELSD should cease paying the employee's share of the retirement benefit for all administrative positions. Although this may require negotiation of administrator contracts, this will help reduce General Fund expenditures.**

The District pays the employer and a portion, or all, of the employee share of retirement benefit for 11 District positions. The District has chosen to provide the pick-up on pick-up plan, which allows the District to contribute the employee's portion of retirement and an additional 10 percent of the employee's share. The positions that receive this additional benefit include:

- Superintendent;
- Treasurer;
- Assistant Treasurer;
- Principals (3);
- Assistant Principal;
- Athletic Director;
- Office / Clerical staff (2); and
- Technology Coordinator.

School districts in Ohio are required to administer payments into two retirement plans: the State Teachers Retirement System (STRS) for teachers and other certificated staff, and the School Employees Retirement System (SERS) for positions such as secretaries, custodians, business managers, teacher aides, dentists, bus drivers, and food service personnel. STRS and SERS mandate the percentages of contribution to be made by an employer and employee. Employers are required to contribute 14 percent toward each employee's retirement fund based on the employee's annual salary. Employees must contribute 10 percent of their gross earnings.

Providing this additional benefit is costly to the District and represents a hidden salary cost. By eliminating the additional retirement benefit, the District could reduce benefit expenditures and provide needed financial relief to its General Fund. Furthermore, it would provide fringe benefits on a more equitable basis between staff and administrators.

*Financial Implication:* If the District stopped paying the employee share of the retirement benefit and the additional percentage, it could save approximately \$54,000 annually based on projected FY 2009-10 wages.

*Benefits*

**R3.5 MELSD should negotiate an increase in the employee share of medical premiums. An increase in the employee share of health insurance premiums would offset the rising cost of health insurance and provide needed financial relief for the District. This increase would affect certificated employees hired before July 2005, as well as all classified staff.**

**During the course of the audit, MELSD was successful in negotiating a change to the certificated bargaining agreement that stipulates new hires will pay a 20 percent employee share. The District was not successful in negotiating this change to its classified bargaining agreement.**

The District offers medical, dental, and vision coverage to its employees through the Southwest Ohio Educational Purchasing Council. The District offers a three tier medical plan that is administered by Anthem through a Preferred Provider Organization (PPO). In previous collective bargaining agreements, the District negotiated that certificated employees contribute towards medical, dental, and vision premiums based upon hire date. Certificated employees hired before July 2005 contribute 10 percent while employees hired after July 1, 2005 contribute 20 percent. Classified employees contribute a fixed 10 percent toward medical, dental, and vision.

According to Kaiser, the 2008 average employee premium contribution is 16 percent for single coverage and 27 percent for family coverage. SERBs Cost of Health Insurance in Ohio's Public Sector Report (2007) states that State of Ohio employees contribute 15.7 percent of premiums for single coverage and 15.6 percent for family coverage.

Because the employee medical premium 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 medical premium contributions to 15 percent for certificated employees hired before July 2005 and all classified employees would result in savings of approximately \$44,500 annually. The savings is based on FY 2008-09 premiums.

**R3.6 MELSD should work to reduce the cost of life insurance provided to employees. The District should pursue a reduction in the cost per \$1,000 of coverage and the amount of life insurance provided to each employee. Although reductions or changes in the amount of life and accidental death and dismemberment (AD&D) insurance may require contract negotiations, this will help bring the District's compensation in line with industry benchmarks and reduce General Fund expenditures.**

**During the course of the audit, MELSD obtained a lower cost insurer (Sun Life Insurance) through a purchasing cooperative. The Treasurer estimated the change in providers will save the District between \$5,000 and \$6,000 annually.**

MELSD provides life and AD&D insurance to its employees through Horace Mann at no cost to the employee. The District pays \$0.18 for every \$1,000 of life insurance and \$0.025 for every \$1,000 of AD&D insurance. In June, 2008, the District increased the amount of life and AD&D insurance from \$30,000 to \$37,000.

According to the Ohio Education Association (OEA) the average life insurance amount offered by employers is \$35,000 and the rate for Ohio's school districts is \$0.14 for every \$1,000 of coverage.

The amount and rate per \$1,000 of life insurance provided by the District is higher than the OEA average. By identifying other vendors that administer life insurance, MELSD could find a lower rate per \$1,000. The District could also lower the amount of life insurance provided to its employees to the OEA average in order to lower costs.

*Financial Implication:* If the District reduced the amount of life insurance to \$35,000 per employee and negotiated a lower rate per \$1,000 comparable to the OEA average, the District could save approximately \$3,000 annually.

### *HR Management*

**R3.7 MELSD should conduct annual employee surveys to measure 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 has not conducted employee surveys to gather information on job satisfaction or work climate. Employees are able share concerns during annual evaluations or may arrange a meeting with the Superintendent. The Superintendent conducts exit interviews when employees leave the District, during which employees are able to share their level of satisfaction with their employment experience.

*Soliciting Employee Feedback: Getting Results* (SHRM, 2004), states that 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 services, 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.

## Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section. The financial implications are divided into two groups: those that are not, and those that are subject to negotiation. Implementation of those recommendations subject to negotiation requires agreement from the District's bargaining unit.

**Table 3-6: Summary of the Financial Implications for Human Resources**

Recommendation	Annual Cost Savings
<b>Recommendations Not Subject to Negotiation</b>	
<b>R3.2</b> Eliminate 5.0 regular teaching FTEs	\$582,000
<b>R3.3</b> Eliminate 1.5 ESP FTEs	\$96,600
<b>Total – Recommendations Not Subject to Negotiations</b>	<b>\$678,600</b>
<b>Recommendations Subject to Negotiations</b>	
<b>R3.4</b> Eliminate additional retirement benefit	\$54,000
<b>R3.5 Increase employee contribution of medical premium to 15 percent</b>	\$44,500
<b>R3.6</b> Reduce amount and the rate per \$1,000 of Life and AD&D insurance	\$3,000
<b>Total – Recommendations Subject to Negotiations</b>	<b>\$101,500</b>
<b>Total – Recommendations</b>	<b>\$780,100</b>

**Source:** AOS Recommendations

**Note:** The financial implications summarized in **Tables 3-6** are presented on an individual basis. The magnitude of cost savings associated with individual recommendations could be affected or offset by the implementation of other interrelated recommendations. Therefore, the actual cost savings, when compared to estimated cost savings, could vary depending on the implementation of the various recommendations.

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# Facilities

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## Background

The facilities section of the performance audit focuses on custodial and maintenance staffing, operations and expenditures, and planning and utilization in Miami East Local School District (MELSD or the District). Comparisons were made for the purposes of developing recommendations to improve efficiency and/or business practices, and, where appropriate, to reduce expenditures. The District's operations were evaluated against leading practices and industry standards, including the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the Association of School Board Officials International (ASBO), and the Ohio Public Facilities Maintenance Association, as well as selected peer school districts.<sup>1</sup>

### *Status of District Facilities*

MELSD operates two schools: Miami East High School (grades 9 through 12) and one combined building housing Miami East Junior High and Miami East Elementary School. (grades kindergarten through 8). The high school includes the administrative office and two modular units, each containing two classrooms, as well as a separate building used for physical education and athletics. It was constructed in 1958, and the elementary/junior high building opened in 2004. The Ohio School Facilities Commission (OSFC) developed an Expedited Local Partnership Program (ELPP) Master Plan for the District prior to construction of the elementary/junior high building. This plan allows a school district to move forward with portions of its school construction projects before it is selected to participate in the OSFC Classroom Facilities Assistance Program (CFAP).

In November 2008, District voters approved a 2.96 mill bond issue to help fund the construction of a new high school, beginning at the start of FY 2009-10. Total cost for the construction of the new high school is approximately \$18 million, with an estimated local share of \$5 million. The OSFC developed a CFAP Facility Master Plan for MELSD's high school construction project, which credits funds spent during the ELPP phase against the local share for the entire project. This plan also included enrollment projections, and reassessment of the current high school facilities (e.g., condition of equipment); however, the District has not developed its own internal facility master plan (see **R4.1**).

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<sup>1</sup> See the **executive summary** for a list of the peer districts.

## Staffing

MELSD's Superintendent supervises custodial and maintenance staff, monitors maintenance and groundskeeping contractors, and prepares student enrollment projections and other planning information for the Board. MELSD's maintenance and operations (M&O) staff are responsible for maintaining and cleaning District facilities. The District employs employee part-time Buildings and Grounds Supervisor that reports to the Superintendent. General responsibilities include repairing, maintaining, and renovating assigned school facilities; promptly reporting safety hazards to the Superintendent; and completing on-site repairs in emergency situations. Custodians report to building principals and the Superintendent, and they are responsible for the cleanliness and sanitation of the District schools. The District contracts for groundskeeping functions such as mowing athletic fields and snow removal.

**Table 4-1** illustrates M&O staffing levels and the number of full-time equivalent (FTE) employees responsible for maintaining MELSD's facilities.

**Table 4-1: MELSD FY 2008-09 M&O Staffing Levels**

Classification	Number of Positions	Number of FTEs
<b>Total Maintenance</b> <sup>1</sup>	1	0.70
<b>Total Custodians</b> <sup>2</sup>	7	6.55
<b>Total M&amp;O Personnel</b>	8	7.25

**Source:** MELSD maintenance and custodial staffing

<sup>1</sup> The District employs a Building and Grounds Supervisor who works 20 hours per week, and is represented as 0.5 FTE. The head custodian at the elementary/junior high building indicated working 20 percent on maintenance duties and 80 percent on custodial duties.

<sup>2</sup> The District employs three custodians at the high school and four custodians at the combined elementary/junior high building. One custodial employee works 6 hours per day and is considered 0.75 FTE.

The District does not have a formal documents or processes to guide its facility management operations. It has not developed a preventive maintenance plan, does not have a work order system, and has not implemented a custodial or maintenance handbook (see **R4.2**, **R4.3**, and **R4.6**) to guide internal operations.

Key statistics related to MELSD's FY 2008-09 maintenance and operations are presented in **Table 4-2**. Results from the *37th Annual Maintenance & Operations Cost Study* (AS&U, 2008), and averages based on the AS&U data are also presented for comparison purposes.<sup>2</sup> In addition, statistics from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) are used as performance benchmarks.

<sup>2</sup> AS&U's 33rd, 34th, 35th, 36th, and 37th Maintenance and Operation Cost Studies are included in the average. AS&U data is the result of a detailed survey of business officials at school districts across the nation that contains 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.

**Table 4-2: MELSD FY 2008-09 Key Statistics and Indicators**

<b>District Buildings</b>	
<b>High School</b>	1
<b>Elementary/Junior High</b>	1
<b>Total School Buildings</b>	2
<b>Custodial Operations</b>	
<b>MELSD Square Feet Cleaned</b>	198,616
<b>MELSD Square Feet per Custodial FTE</b>	30,323
<b>NCES Industry Standard <sup>1</sup></b>	29,500
<b>Maintenance Operations</b>	
<b>MELSD Square Feet Maintained</b>	198,616
<b>MELSD Square Feet per Maintenance FTE <sup>2</sup></b>	283,737
<b>AS&amp;U 5-Year Average Annual Cost Survey National Median for Maintenance</b>	95,000
<b>FY 2007-08 General Fund Expenditures per Square Foot</b>	
<b>MELSD Custodial &amp; Maintenance</b>	\$3.13
<b>MELSD Utilities</b>	\$1.30
<b>MELSD Total M&amp;O</b>	\$4.43
<b>AS&amp;U Annual Cost Survey Median</b>	\$4.56
<b>Peer Average</b>	\$5.33

**Source:** MELSD 4502 reports (Statements P & Q), Ohio Department of Education (ODE), Peer Districts, AS&U 37th Annual Maintenance and Operations Cost Study, and NCES industry standards

<sup>1</sup> According to NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues. For benchmarking purposes, AOS used the midpoint of the range (29,500 sq. ft.).

<sup>2</sup> MELSD Square Feet per Maintenance FTE of 283,737 is higher than MELSD Square Feet Maintained of 198,616 because the District only has 0.7 FTE dedicated to maintenance.

As shown in **Table 4-2**, MELSD's custodians clean 30,323 square feet per FTE, which is in line with NCES industry standards. Although the District's square feet per maintenance FTE is higher than the AS&U national median, the District contracts out the majority of its maintenance needs, which permits its in-house maintenance staff to adequately maintain the higher number of square feet per FTE.<sup>3</sup> The District's expenditures per square foot are lower than the AS&U and peer averages (see **Table 4-4**).

### *Financial Data*

**Table 4-3** illustrates the District's General Fund M&O expenditures for FY 2005-06, FY 2006-07, and FY 2007-08.

<sup>3</sup> AOS confirmed that the District's school buildings appear clean and well maintained.

**Table 4-3: MELSD M&O Three-Year Expenditure History**

Cost Category	FY 2005-06	FY 2006-07	% Change	FY 2007-08	% Change
Salaries & Benefits	\$395,583	\$373,175	(5.7%)	\$387,082	3.7%
Purchased Services	\$143,232	\$109,412	(23.6%)	\$186,546	70.5%
Utilities	\$240,617	\$231,365	(3.8%)	\$257,969	11.5%
Supplies & Materials	\$43,782	\$44,410	1.4%	\$41,484	(6.6%)
Capital Outlay	\$2,495	\$1,631	(34.6%)	\$5,780	254.3%
Other	\$386	\$338	(12.5%)	\$786	132.7%
<b>Total General Fund</b>	<b>\$826,095</b>	<b>\$760,332</b>	<b>(8.0%)</b>	<b>\$879,647</b>	<b>15.7%</b>
<b>Other Funds</b>	<b>\$5,045</b>	<b>\$6,146</b>	<b>21.8%</b>	<b>\$21,689</b>	<b>252.9%</b>
<b>Total All Funds</b>	<b>\$831,139</b>	<b>\$766,478</b>	<b>(7.8%)</b>	<b>\$901,336</b>	<b>17.6%</b>

Source: MELSD year-end 4502 Statements P and Q

Note: Totals may vary due to rounding.

As shown in **Table 4-3**, the District's largest increases in FY 2007-08 facilities expenditures were in the categories of purchased services, utilities, capital outlay, and other funds. Conversely, the District has managed to keep its salaries and benefits, and supplies and materials expenditures fairly stable. MELSD has been able to control salary and benefit expenditures despite the District's practice of providing guaranteed overtime for some custodians (see **R4.5**). Purchased services expenditures increased due to general increases in routine contracted maintenance for facilities. Utility expenditures increased as the result of price increases from the District's suppliers. Capital outlay expenditures increased due to the purchase of air purifiers. Other funds expenditures increased due to phone system improvements and maintenance expenditures within the Permanent Improvement Fund.

**Table 4-4** compares MELSD's FY 2007-08 General Fund custodial and maintenance related expenditures on a per square foot basis with the peer average and AS&U national median.

**Table 4-4: FY 2007-08 M&O Expenditures per Square Foot Comparison**

	MELSD	Peer Average	% Difference	AS&U	% Difference
Salaries & Benefits	\$1.95	\$2.63	(25.9%)	\$2.05	(4.9%)
Purchased Services	\$0.94	\$0.70	34.2%	\$0.21	347.3%
Utilities	\$1.30	\$1.59	(18.3%)	\$1.52	(14.6%)
Supplies & Materials	\$0.21	\$0.35	(40.3%)	\$0.38	(45.0%)
Capital Outlay	\$0.03	\$0.04	(27.3%)	N/A	N/A
Other	\$0.00	\$0.02	(80.2%)	\$0.40	(99.0%)
<b>Total General Fund</b>	<b>\$4.43</b>	<b>\$5.33</b>	<b>(16.9%)</b>	<b>N/A</b>	<b>N/A</b>
<b>Total All Funds</b>	<b>\$4.54</b>	<b>\$6.22</b>	<b>(27.0%)</b>	<b>\$4.56</b>	<b>(0.5%)</b>

Source: MELSD FY 2007-08 year-end financial records, AS&U and peer data

Note 1: Totals may vary due to rounding.

Note 2: The USAS and AS&U definitions of "other" do not necessarily encompass consistent expenditures.

As shown in **Table 4-4**, the District's total General Fund facility expenditures per square foot are below the peer average and AS&U national median. MELSD's purchased services per square foot were 34 percent and 347 percent higher than the peer average and AS&U national median, respectively. The bulk of expenditures in purchased services were for heating, ventilation, and air conditioning (HVAC) repair and other contracted repairs. MELSD's utility expenditures are below both the peer average and the AS&U national median, even though the District does not have a formal energy management plan in place (see **R4.4**).

### *Building Capacity and Utilization*

**Table 4-5** shows MELSD functional capacity and utilization for FY 2007-08.

**Table 4-5: MELSD FY 2007-08 Building Utilization <sup>1</sup>**

Building	Functional Capacity <sup>2</sup>	FY 2007-08 Head Count	Over/(Under) Capacity	FY 2007-08 Utilization
Elementary School Grades (K-5)	675	548	(127)	81%
Junior High School Grades (6-8)	468	289	(179)	62%
<b>Combined Elementary/Junior High School</b>	1,143	837	(306)	73%
<b>Current High School (9-12)</b>	468	438	(29)	94%
<b>Total</b>	1,610	1,275	(335)	79%

**Source:** MELSD building walk-through, interviews, and EMIS enrollment

**Note:** The table does not include the functional capacity of the two modular classroom units at the high school. Totals may vary due to rounding.

<sup>1</sup> Optimal building utilization is 85 percent.

<sup>2</sup> The capacities for all classrooms were calculated by multiplying the number of regular classrooms and full-day kindergarten rooms by 25 students, and self-contained special education rooms by 10 students to arrive at the total capacity of the building. Classrooms used for music, art, resource room, tutoring, gym, library, and computer labs are excluded from the elementary calculation. Junior high and high school functional capacities were calculated by multiplying the total number of teaching stations by 25 students and multiplying the product by an 85 percent utilization factor.

The District's overall building utilization of 79 percent is slightly below the optimal utilization of 85 percent. Based on optimal utilization, the District was significantly under-capacity in FY 2007-08 at the junior high portion of the elementary/junior high building, with 62 percent utilization. The District's high school is slightly over optimal capacity at 94 percent, but this does not factor in two modular units at the high school. If the two modular units are factored in, MELSD's high school has a utilization rate of 77 percent.

According to the OSFC and the District's architects, the new high school design capacity is 616 students. However, enrollment is projected to decline for high school grades 9 to 12 to 332 by FY 2010-11, which results in an estimated utilization rate at the new high school of 54 percent (see **R4.1**). With the extra space at the high school, the District would have options to reexamine its design parameters, reconfigure grades, and/or identify additional uses for the space.

## **Facilities Section Audit Objectives**

The following objectives were used to evaluate the facility operations within the District:

- How do the District's costs per square foot for maintenance operations compare with industry and AS&U benchmarks?
- Has the District established custodial/maintenance procedures and standards to ensure efficient operations?
- Is the District's custodial and maintenance staffing comparable to best practices?
- Are District energy management practices comparable to best practices?
- Are the District's facility management and planning practices comparable to best practices?
- Does the Maintenance and Operations Department have a system for prioritizing maintenance needs uniformly throughout the District?

AOS discussed custodial staffing with District representatives. AOS found that, although the District could make minor adjustments to custodial staffing levels, overall, custodial staffing was not high and no staffing recommendations were warranted.

## **Recommendations**

### *Facility Planning and Maintenance*

**R4.1 MELSD should develop a facility master plan. The plan should compile enrollment projections, functional capacity and utilization data, facilities costs, energy management policies (see R4.5), preventive maintenance plans (see R4.2), capital improvement plans, and information from buildings audits. The plan should be updated annually to ensure current information is available for decision-making purposes. Through improved planning and management of its facilities, MELSD can better manage repairs, implement maintenance and replacement strategies, and control M&O costs.**

**Finally, the District should ensure the design of the new high school is appropriate to the projected enrollment and utilization of the facility. This will ensure that the District focuses its use of financial resources and does not construct a building that is not appropriate for its needs. As the District moves forward with the Ohio School Facilities Commission (OSFC) high school construction project, it should use its facilities plan to develop strategies to manage the utilization of its school buildings.**

The OSFC has developed facilities plans and enrollment projections for MELSD's elementary/junior high building and the proposed high school. However, the District does not maintain its own facility master plan and has not monitored enrollment trends. It has a three-year capital improvement plan (FY 2006-07, 2007-08, and 2008-09) that includes estimated costs for a variety of items including bus purchases, stadium bleachers replacement, technology replacement, roof repairs, and track resurfacing.

Based on the District's most recent design floor plans for its new high school, the estimated utilization rate at the new school will be 54 percent by FY 2010-11. Because of the high degree of underutilization predicted, the District should reexamine the design parameters to maximize building space and reduce the building's size to better accommodate the District's student population.

Also, MELSD has not conducted regular building audits or implemented a preventive maintenance plan (see **R4.2**). The Superintendent monitors preventive maintenance for school buildings through online reports available through MELSD's preventive maintenance contractors. Additionally, the District has a Building and Grounds Committee that tours the District buildings every other month to assess cleanliness and the overall condition of the buildings. However, the District does not conduct annual building audits to assess maintenance needs.



In its response to the audit, MELSD noted it already had and has used a Facilities Master Plan created by the Ohio Schools Facilities Commission (as mentioned above). In addition, the District has a five-year strategic plan which includes a Facilities Committee and goals. Lastly, the District has created a Comprehensive Safety Plan as required by Jarod's Law. This Comprehensive Safety Plan includes a lengthy detailed preventative maintenance section. There are four copies of this plan distributed in each of the buildings across the district. Auditors note that MELSD could use these building blocks to develop its own comprehensive facilities master plan with few additions.

According to *Creating a Successful Facilities Master Plan* (DeJong and Associates, Inc., 2001), school districts should develop long-term facilities master plans. A plan should contain information on capital improvement and financing, overall safety and condition of buildings, enrollment projections, and capacity analyses. A plan should be developed on a foundation of sound data and community input and on facility conditions and demographics. The desired educational program should be the driving force. As a road map for addressing the District's facility needs, the 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. It should be updated periodically to incorporate improvements that have been made, changes in demographics or changes in educational programs. MELSD could incorporate its three-year capital improvement plan into a facilities master plan.

Also, the *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends that facility audits be a routine part of the facilities maintenance program. A facility audit is a comprehensive review of a school district's buildings. The audits are a standard method for establishing a baseline of information about the components, policies, and procedures of existing facilities. Facility audits are important because they help planners, managers, and employees learn about the condition of the facilities, service history, and maintenance needs. The audits rely on facts to establish plans for maintaining and improving school facilities and allow in-depth analyses of product life cycles to occur on a routine basis. Once initiated, audits must be performed on a regular basis (e.g., annually) because conditions change constantly. Further, by integrating the findings of annual audits over time, planners can uncover information on the impact of various maintenance strategies and the demands placed on the infrastructure. This information can be used to increase the efficiency and cost-effectiveness of future maintenance efforts.

Without a comprehensive facilities master plan that is periodically updated, MELSD cannot effectively evaluate the impact of enrollment on building utilization and communicate decisions for short and long-term facilities needs. Similarly, conducting regular building audits should improve the quality and timeliness of maintenance-needs information and thereby help the District better plan its capital improvement projects.

**R4.2 MELSD should ensure preventive maintenance plans for its elementary/junior high building and high school are developed and implemented. The District should track all contractors using online reports, as well as other methods (such as checklists and/or spreadsheets). The District could track its preventive maintenance using spreadsheets and plans developed by OSFC or those developed and customized by the District. These PM plans should be linked to the District’s capital improvement plan and facility master plan (See R4.1). Implementing preventive maintenance plans would help the District to more effectively track scheduling, completion, and costs for all District preventive maintenance activities. Formal planning for maintenance and repairs will ensure that newly constructed buildings and systems do not fall into disrepair and that health and safety issues are addressed.**

The District does not use the preventive maintenance plan and Facility Maintenance Report (FMR)<sup>4</sup> developed by the OSFC for its elementary/junior high building, and does not have an internal preventive maintenance plan for the high school. According to the Superintendent, the District has not used the FMR-generated spreadsheets/checklists to track all preventive maintenance due to maintenance staff limitations. Instead, the District contracts out the majority of facility equipment preventive maintenance (e.g. HVAC, plumbing, and fire). The Superintendent uses online reports, provided by the contractors, to monitor the location, date, and type of scheduled and completed preventive maintenance activities. The Superintendent estimated that about 60 percent of the District’s contracted preventive maintenance activities can be monitored in this manner.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends that all districts have preventive maintenance programs. Preventive maintenance should focus on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure. Maintenance entails much more than just fixing broken equipment. A well-designed facility management system generally encompasses four categories of maintenance: emergency (responsive), routine, preventive, and predictive maintenance. Preventive maintenance is scheduled work on equipment and predictive maintenance is forecasting the failure of equipment based on age, user demand, and performance measures. Preventive maintenance includes periodic inspections, lubrication, calibrations, and equipment replacement. Effective preventive maintenance is a planned approach to avoid equipment breakdowns and prevent minor problems from escalating into major ones. By contrast, emergency and corrective maintenance occur when equipment fails, typically requiring more time and resources to correct problems.

NCES indicates that 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

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<sup>4</sup> The FMR is a spreadsheet that includes equipment specifications, warranty information, maintenance activity summaries, and important benchmarks that can be used to better manage facility operations.

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.

Active planning for preventive maintenance should occur at the same time as planning for other maintenance; it is needed both for the long-term (at least a three-year outlook) and the short-term (the upcoming year). Long-term planning includes a long-range facility plan and a capital improvement program. Short-term planning includes annual work plans and annual budgets.

According to *Spotlight on Maintenance* (Ohio Public Facilities Maintenance Association, 2007), neglect of preventive maintenance produces a domino effect on nearly every single asset across the facility, not just the HVAC system. When preventive maintenance is neglected, the utility bills increase and the life cycle of the asset is decreased. Motors, chillers, and boilers work harder to meet the buildings inefficiencies and the increased run time hours reduce the life of the equipment. The pennies saved by neglecting preventive maintenance result in dollars spent on high utility bills and more frequent repairs and replacements.

Because it is not using the preventive maintenance tools developed by OSFC, the District cannot formally track and monitor all preventive maintenance that is completed and how this relates to recommended maintenance levels. Implementing a preventive maintenance plan and linking it to the capital improvement plan would help the District anticipate and identify facility equipment repairs, and prioritize projects and related funding. In addition, having a plan for both preventive maintenance and capital improvements would help guide the Superintendent and Building and Grounds Supervisor in determining the priority of requests.

- R4.3 The District should consider purchasing a computerized maintenance management system (CMMS) to track information for maintenance work orders, as well as preventive maintenance and capital improvements. CMMS software would help the District schedule, prioritize, and track all work orders. A CMMS would also help to aggregate work order information to analyze maintenance history and trends, thereby improving the management of its facility maintenance program. Finally, a CMMS would also help the District to more easily track and monitor the amount of supplies and materials used on projects, the cost of labor (including staffing levels and overtime usage), and the productivity and performance of assigned personnel, which would be helpful in estimating future costs and timeframes for potential projects.**

The District does not use an automated system (e.g., spreadsheet) to track and prioritize work orders. MELSD has a work order request form, but it is often not used. Instead,

teachers or principals generally communicate requests verbally to either the part-time Building and Grounds Supervisor or the Superintendent. Prioritization of the work orders is conducted by the Superintendent. Top priority is given to work orders and projects which are emergencies or have safety implications. The Superintendent contracts out the work if there is a safety issue or emergency work order on a day when the Building and Grounds Supervisor is not working.

Although the District does not have an automated system for tracking work order information such as associated supply costs, labor hours, and timeliness, District staff indicated that the work order process works well.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that a work order has been addressed, and track the cost of parts and labor. More efficient work order systems come in the form of a CMMS. Its purpose is to manage work requests as efficiently as possible and meet the basic information needs of the District. NCES states that, at a minimum, the work order should account for the following:

- The date the request was received;
- The date the request was approved;
- Job tracking number;
- Job status (received, assigned, ongoing, or completed);
- Job priority (emergency, routine, or preventive);
- Job location (where, specifically, is the work to be performed);
- Entry user (the person requesting the work);
- Supervisor and craftsperson assigned to the job;
- Supply and labor costs for the job; and
- Job completion date/time.

Furthermore, upon closing out a work order, all information about the request should be placed in a data bank for future historical and analytical use (e.g., for determining the yearly cost of building maintenance). MELSD's form and work order process meets most of the recommended minimum criteria reported in *the Planning Guide for Maintaining School Facilities*. However, it is missing some elements.

Implementing a CMMS system will:

- Allow the maintenance department to establish work priorities;
- Allow the requesting party to track work order progress through completion;

- Allow the requesting party to provide feedback on the quality and timeliness of the work;
- Allow preventive maintenance work orders to be included; and
- Allow labor and parts costs to be captured on a per-building basis (or, even better, on a per-task basis).

By tracking the information contained on the work orders over a historical period, the District will be able to ensure that processes are being completed in the most efficient manner and that repair needs are being addressed in a timely fashion. Furthermore, tracking supply and labor costs reported will allow the Superintendent to annually calculate the maintenance labor and supply costs, making departmental budgeting and task allocation easier. Implementing a CMMS would help MELSD better manage its work order process and would permit the District to enter preventive maintenance and capital improvement data as well. As MELSD completes its OSFC project, it should also request its project manager enter its preventive maintenance data for the high school into its CMMS.

*Financial Implication:* Purchasing a CMMS would cost approximately \$800 for an annual subscription fee based on supplier advertised prices. The exact price will depend on the features desired by MELSD and the contract terms negotiated with the vendor.

### *Energy Management*

**R4.4 MELSD should develop and implement a formal energy management program that incorporates practices recommended by the United States Green Building Council. The District should distribute the policies and procedures and discuss them with all staff in an effort to educate them about energy conservation and the impact waste has on the District's operating budget. As a component of the procedures, MELSD should implement an energy conservation education program for its students. Lastly, the Superintendent should, on a regular schedule, formally review and benchmark utility costs.**

The District's FY 2007-08 utility cost per square foot was \$1.30, which was approximately 18 percent lower than the peer average and 15 percent lower than the AS&U national median of \$1.52. MELSD has been able to achieve relatively low utility cost per square foot because the elementary/junior high building incorporated more energy efficient equipment and has been able to achieve cost-savings of approximately \$35,000 compared with the high school, even though the elementary/junior high building has approximately 59,000 more square feet. The Superintendent determined these cost savings by reviewing past invoices, but he has not documented these savings or engaged in formal energy management monitoring. The new high school is required to be Leadership in Energy and Environmental Design (LEED) certified, which verifies that

the school building has met a high level of energy and environmental performance. The Superintendent also indicated the District is looking into solar power and wind turbines.

Board Policy 7460 – Conservation of Natural and Material Resources states the increasing costs of natural energy resources coupled with the growing need to inhibit pollution mandate the District implement strategies which will conserve all forms of energy used and ensure proper recycling of re-usable materials. This policy further states the Board directs the Superintendent to develop and implement both immediate and long range plans to meet these goals.

Although the District has developed an energy conservation policy, it has not developed additional detailed strategies which include, but are not limited to, prohibiting the use of personal appliances, establishing temperature setting guidelines, and providing energy management guidelines for computers and equipment. In addition, according to the Superintendent, the District lacks a formal education plan to train employees and students in conservation orientated behaviors.

According to the *Top Ten No-Cost Ways to Lower Your School's Utility Bills* (U.S. Green Building Council, 2008), the top ten no-cost ways to lower a school's utility bills include the following ideas:

- **Establish and communicate a policy:** Includes connection to business plan, identifying roles and responsibilities; establishing temperature set points; providing energy management guidelines for computers and equipment (school and personal); establishing guidelines for shutting down equipment during vacations; using benchmarking; providing awareness and training and establishing a Sustainable Energy Efficient Committee.
- **Benchmark your school:** School districts can go to [www.energystar.gov](http://www.energystar.gov) and enter data for their school and compare their schools with a national average.
- **Assign responsibilities for common areas:** Includes developing check-lists and assign responsibility (i.e. give to a particular teacher) for monitoring energy efficiency for common areas such as hallways, auditoriums, and gymnasiums.
- **Establish a recognition program:** Involves organizing award ceremonies to give visibility to the program and recognizing energy behavior of staff.
- **Control classroom thermostats:** Controlling classroom thermostats either manually by establishing a range (e.g., 72 to 78 degrees) and setting back at night and weekends or programming system to establish range and periodically inspect settings.

- **Use building automation systems (BAS):** Using a technician program the Building Automation System (BAS) to optimize system settings.
- **Turn off outside lighting:** Turning off outside lighting (12:00 a.m. to 6:00 a.m.) The National Crime Prevention Council tested strategies to prevent crime and a dark campus actually was determined to deter vandals.
- **Establish a plug load policy:** Developing a plug load policy for equipment (e.g., water heaters, vending machines, computers, etc.) that saves energy by implementing seasonal shut down of certain equipment and using stand-by power which includes the use of power strips, unplugging equipment when not in use, and purchasing Energy Star rated equipment.
- **Keep doors and window closed:** Creating positive pressure which causes air to vent to the outside and can increase the cooling and heating load of the equipment.
- **Control exhaust fans:** Creating negative pressure where outside air can enter through numerous cracks and holes in the building, bringing in unwanted temperatures and humidity levels.

In FY 2005-06, Mansfield City School District implemented an aggressive energy conservation program. It developed energy conservation policies which were distributed to all employees. Employee participation in the measures was required of all personnel. Administrators and support personnel (particularly custodians) were invested in the process and enlisted to help ensure its success. The policy not only contained recommended practices outlined in NCES and U.S. Department of Energy publications, but included several leading practices as well.

By developing additional energy management strategies, procedures, and guidelines for staff, MELSD will be in a better position to control and potentially reduce utility costs. The District could achieve energy savings of up to 15 percent at the high school when an energy management program has been fully implemented. A smaller savings could also be generated at the elementary/junior high building as some degree of energy awareness typically generates an immediate 1 to 3 percent operational savings. The District would be able to save \$7,739 per year if it is able to realize 3 percent operational savings for energy management for all of its buildings. Making energy conservation measures a requirement for all staff and empowering administrators and building custodians to exercise aggressive energy management practices, including “impounding” prohibited items, would help MELSD reduce its energy consumption costs and redirect these funds to classroom instruction.

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*Custodial and Maintenance Procedures*

**R4.5 The District should discontinue the practice of allowing head custodians and one second-shift custodian at the elementary/junior high building to receive 2.5 hours of overtime per week for building checks during the school year (40 weeks). This practice is inconsistent with the classified negotiated agreement that stipulates 1 hour per week of overtime for head custodians to perform building checks during winter months (November to March). The District should also consider negotiating to eliminate the overtime provision altogether to achieve additional cost savings. As the new buildings are highly automated, manual weekend checks are no longer necessary.**

In its response to the audit, MELSD noted the practice of providing overtime to one second shift custodian for building checks has been eliminated for FY 2009-10. However, administrators noted that, on numerous occasions, the weekend checks have discovered electrical, mechanical, and fuel problems that were repaired and corrected before school began the following Monday.

The District employs two head custodians, and one second-shift custodian at the elementary/junior high building, who each receive 2.5 hours per week of guaranteed overtime during the school year (40 weeks). The Treasurer indicated that the provision of guaranteed overtime has been an ongoing practice of the District. The additional compensation custodians receive for guaranteed overtime is \$8,783 per year based on FY 2007-08. The average salary of \$37,483 for custodians is approximately 20 percent higher than the peer average of \$31,292 (see **human resources**).

The District's classified negotiated agreement specifies that head custodians receive 1 hour per week overtime during the winter months (November through March, or 20 weeks) to conduct weekend building checks. The Superintendent indicated that this time is for custodians to verify that all boilers and building systems are working properly and to ensure that the sidewalks and parking lots are cleared of snow.

Although giving guaranteed overtime for 2.5 hours per week for weekend checks has been an ongoing practice of the District, this overtime benefit exceeds the 1 hour per week allowed for the checks in the classified negotiated agreement, and increases compensation costs to the District.

*Financial Implication:* If the District eliminated all guaranteed overtime provided to head custodians for weekend building checks, it would save \$9,200 in FY 2008-09.



**R4.6 MELSD should develop a custodial and maintenance handbook that includes topics such as cleaning procedures, cleaning and maintenance standards, training and evaluations, job descriptions, maintenance guidelines, and benchmarks. The District should regularly update the handbook as changes in procedures and equipment occur. The development of a custodial and maintenance handbook would allow the District to document key processes for M&O staff and ensure consistent application of these processes in day-to-day operations.**

The District has not developed a custodial and maintenance handbook that includes cleaning and maintenance procedures, custodial standards, evaluations, and training requirements. MELSD custodians receive on-the-job training, and have periodically received training from vendors on new custodial equipment.

The *Custodial Methods and Procedures Manual* (Association of School Board Officials International, 2000) includes topics such as cleaning procedures, cleaning and maintenance standards, training and evaluations, job descriptions, and maintenance guidelines. The manual also contains staffing standards that estimates the time it should take to complete various work tasks. The manual can serve as a guideline for developing procedures for custodial and maintenance personnel. It should outline staffing standards, daily duties and tasks, job descriptions, job schedules, evaluations, and cleaning procedures and methods for various job tasks.

*The Science of Cleaning* (Trombetta, n.d.) recommends cleaning professionals consider their occupation a science and evaluate how they perform each cleaning process and the tools they use. MELSD could also use the International Sanitary Supply Association (ISSA) recommended cleaning times to reevaluate its cleaning processes. Twin Valley Local School District (Preble County) has applied these standards to its custodial procedures and achieved high levels of efficiency while maintaining a sanitary environment. Likewise, the Association of Higher Education Facilities Officers (APPA) provides a self analysis guide for custodial operations to help building administrators improve productivity. Using these tools should help MELSD maintain its custodial efficiency while ensuring the cleanliness of the District's facilities.

However, without a custodial and maintenance procedural handbook that details the procedures for cleaning and maintaining its facilities, there is an increased risk of staff inconsistency, inefficiency, and ineffective performance of job functions. Improved consistency in the implementation of procedures would enhance the effectiveness of custodial and maintenance personnel and could reduce the costs associated with maintenance and custodial operations through improved application of supplies and cleaners.

## Financial Implications Summary

The following table is a summary of estimated annual costs and savings. For the purpose of this table, only recommendations with quantifiable impacts are listed.

**Table 4-6: Summary of Financial Implications for Facilities Section**

<b>Recommendation</b>	<b>Annual Costs</b>	<b>Annual Savings</b>
<b>R4.3</b> Subscribe to a CMMS.	\$800	N/A
<b>R4.5</b> Discontinue allowing head custodians guaranteed overtime for weekend building checks.	N/A	\$9,200
<b>Total</b>	<b>\$800</b>	<b>\$9,200</b>

Source: AOS

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# Transportation

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## Background

This section of the performance audit focuses on Miami East Local School District's (MELSD or the District) transportation operations. MELSD's transportation operations were evaluated against leading practices, operational standards, and selected peer school districts.<sup>1</sup> Comparisons were made for the purpose of developing recommendations to improve efficiency and/or business practices and to reduce expenditures. The leading practices and operating standards included in this section of the report are from the National Association of State Directors of Pupil Transportation Services (NASDPTS), the National State Auditors Association (NSAA), the Transportation Research Board, and the Ohio Department of Education (ODE).

### *Summary of Operations*

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 schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as is provided to other students. In addition, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. Finally, when required by individualized education plans (IEPs), school districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of each child.

MELSD's transportation policies indicate that the District's current level of transportation service is to transport all students in grades K through 12 who live further than 1 mile. In actual practice, the District transports all students who request transportation because of the lack of sidewalks near the school campus. The District provides yellow bus transportation to its own students, as well as to two adult transition students attending a non-public school and to special education students attending programs outside the District.

MELSD employs multi-tier routing (two tiers), staggered bell schedules, and cluster stops in towns and housing developments to improve the efficiency of its routes. The District does not use routing software, but instead keeps hard copies of routing sheets and maps (see **R5.1**). It does not have a bus replacement plan or a strategy for bus purchasing or replacement (see **R5.4**). The District contracts out for bus maintenance.

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<sup>1</sup> See the **executive summary** for a list of the peer districts.

To ensure the physical security of MELSD's fleet, bus drivers take buses home for overnight storage. The maintenance contractor stores the majority of spare buses, although the District stores three spare buses behind the high school. In addition, the District has an on-site fuel tank, which is located in a locked area and enclosed by a fence, that bus drivers can access by key. Bus drivers are required to submit monthly fuel reports to the Transportation Coordinator to compare miles driven with the amount of fuel used.

### *Organizational Structure*

MELSD's Superintendent directs the District's transportation operations. He is responsible for monitoring the District's bus maintenance and insurance contracts (see **R5.3**) and conducting evaluations of the Transportation Coordinator and bus drivers. The Transportation Department consists of the Transportation Coordinator, who also drives a route, eleven full-time regular bus drivers, and two full-time special education bus drivers (see **R5.2**). The Transportation Coordinator is responsible for developing and assigning routes, coordinating safety training for bus drivers, communicating with parents on transportation issues, overseeing Ohio Highway Patrol bus inspections, and monitoring the quality of the bus maintenance contractor's work.

District bus drivers work under the negotiated agreement between the Miami East Board of Education and the Miami East Association of Support Professionals in Miami County, effective July 1, 2008 to June 30, 2011. Article 11 contains transportation information, which primarily includes work procedures such as the storage of buses, fueling time, mandated in-service, and extracurricular/field trip distribution (see *issue for further study* in the **executive summary**). MELSD provides its drivers with bus driver handbooks which contain transportation-specific procedures and additional personnel policies.

### *Operating Statistics and Cost Comparisons*

**Table 5-1** compares the FY 2007-08 key operating statistics for MELSD with the peer averages.

**Table 5-1: FY 2007-08 Key Transportation Statistics Comparison**

	MELSD	Peer Average	Percent Difference
Square Miles	121.0	48.9	147.4%
ODE Enrollment	1,286	1,173	9.7%
Total Students Transported (All Types)	1,126	713.3	57.9%
<b>Yellow Bus Riders (Type I)</b>			
Total Yellow Bus Riders	1,104	693.6	59.2%
<b>Buses and Miles</b>			
Active Buses	14	11.2	25.0%
Spare Bus Ratio	33.3%	24.8%	34.4%
Annual Routine Miles	280,980	141,516	98.5%
<b>Operating Ratios</b>			
Riders per Square Mile	9.1	12.8	(28.5%)
Yellow Bus Riders Per Active Bus	78.9	57.3	37.5%
Routine Miles Per Active Bus	20,070	11,498	74.6%

**Source:** MELSD and peer district T-1 reports and EMIS data as reported to ODE

**Table 5-1** illustrates that MELSD transports a larger number of riders while using more active buses than the peers. The District transported 78.9 riders per active bus, which is higher than the peers but below national benchmarks. However, when special education buses are excluded, it transported 91 riders per bus in FY 2007-08, but its ridership decreased to 83 in FY 2008-09. The District also has fewer riders per square mile and its buses must travel a far greater number of routine miles per active bus than the peers. This increases bus maintenance costs and the length of time students ride the bus. MELSD's spare bus ratio is high—33 percent—which is 34 percent higher than the peer average. Maintaining a high spare bus ratio can increase transportation costs (see **R5.5**).

The efficiency of a district's transportation function is measured by its bus utilization rate, or its ability to achieve an optimal number of students per bus, per tier. In FY 2007-08, the District transported 79 riders per bus on a two-tiered system (approximately 40 riders per bus, per tier). The District's ridership per active bus is 38 percent higher than the peer average, indicating that the District better manages its extra capacity on buses. However, optimal utilization rates are approximately 50 students per bus, per tier based on national recommended operating ratios.

**Table 5-2** displays MELSD's historical transportation operating statistics.

**Table 5-2 MELSD Key Operating Statistics**

	FY 2006-07	FY 2007-08	Percent Change	FY 2008-09	Percent Change
<b>Ridership</b>					
Total Yellow Bus Riders	1,169	1,104	(5.6%)	1,011	(8.4%)
<b>Buses</b>					
Active Buses	14	14	0.0%	14	0.0%
Spare Bus Ratio	36.4%	33.3%	(8.5%)	36.4%	9.3%
<b>Operational Ratios</b>					
Annual Routine Miles	294,840	280,980	(4.7%)	282,240	4.5%
Routine Miles Per Active Bus	21,060	20,070	(4.7%)	20,160	4.5%
Yellow Bus Riders Per Active Bus	83.5	78.9	(5.5%)	72.2	(8.5%)

**Source:** MELSD transportation data as was reported to ODE.

As shown in **Table 5-2**, MELSD's riders per bus ratio declined 13.5 percent from FY 2006-07 to FY 2008-09 due to a decrease in number of yellow bus riders, which corresponds to the District's slight decrease in enrollment (see *issue for further study* in the **executive summary**). MELSD has not modified the size of its fleet to reflect the decrease in ridership.

### *Expenditure Ratios*

**Table 5-3** shows a comparison of overall transportation costs per rider, per bus, and per routine mile for MELSD and the peers.

**Table 5-3: FY 2007-08 Cost Comparison**

	MELSD	Peer Average	Percent Difference
<b>Total Type I Expenditures</b>	<b>\$724,574</b>	<b>\$434,978</b>	<b>66.6%</b>
Per Rider	\$656	\$636	3.3%
Per Active Bus	\$51,755	\$35,204	47.0%
Per Routine Mile	\$2.58	\$3.18	(19.0%)

**Source:** MELSD and peer district T-reports as reported to ODE

As shown in **Table 5-3**, MELSD's cost per rider and cost per active bus were both higher than the peer average. These costs are primarily above the peer average due to the large number of miles driven by District buses, as shown by the lower cost per routine mile (19 percent below the peer average). In addition, the District does not have a process or procedure to recoup the costs of non-routine transportation miles or to exclude all required operational and labor non-routine transportation costs from District T-2 reports (see **R2.1** in **financial systems and food service**). This inflates its reported expenditures for its transportation function.

**Table 5-4** displays MELSD's historical transportation expenditures as reported in the District's T-2 reports, grouped into major line items.



**Table 5-4: MELSD Transportation Expenditures**

	FY 2005-06	FY 2006-07	Percentage Change	FY 2007-08	Percentage Change	3 Year Change
Salaries	\$289,645	\$288,069	(0.5%)	\$296,802	3.0%	2.5%
Benefits	\$142,977	\$143,024	0.0%	\$147,320	3.0%	3.0%
Maintenance & Repairs	\$98,271	\$111,257	21.6%	\$128,930	22.7%	31.2%
Fuel	\$96,506	\$99,064	2.7%	\$127,954	29.2%	32.6%
Bus Insurance	\$23,953	\$23,953	0.0%	\$16,565	(30.8%)	(30.8%)
All Other Costs	\$6,138	\$8,636	40.7%	\$7,003	(18.9%)	14.1%
<b>Total Type I Expenditures (Board Owned or Leased Buses)</b>	<b>\$657,490</b>	<b>\$674,003</b>	<b>2.5%</b>	<b>\$724,574</b>	<b>7.5%</b>	<b>10.2%</b>
Total Type IA (Bus Service Contracted from another District)	\$0	\$0	0.0%	\$28,367	N/A	N/A
Total Type II Expenditures (Contractor Owned Buses)	\$30,536	\$37,577	23.1%	\$0	(100.0%)	(100.0%)
Total Type III Expenditures (Public Utility)	\$0	\$0	0.0%	\$210	N/A	N/A
Total Type IV Expenditures (Payment in lieu of Transportation)	\$1,376	\$1,032	(25.0%)	\$2,178	111.0%	58.3%
Total Type VI Expenditures (Privately Owned Vehicles other than School Buses)	\$1,152	\$29	(97.5%)	\$0	(100.0%)	(100.0%)
<b>Total Expenditures All Types</b>	<b>\$690,554</b>	<b>\$712,641</b>	<b>3.2%</b>	<b>\$755,329</b>	<b>6.0%</b>	<b>9.4%</b>

Source: MELSD T-2 reports

As shown in **Table 5-4**, the District's total Type I expenditures have increased 10.2 percent since FY 2005-06, primarily due to increases in maintenance, repairs, and fuel costs. The District contracts for bus maintenance, and the agreement with its current contractor is effective from January 1, 2008 through December 31, 2008. The contract stipulates that the District will pay \$247.81 per bus monthly (\$72,549.84 annually) with any additional repair and maintenance cost invoiced in a lump sum on June 20, 2008. The rate of pay is \$52.00 per hour with parts charged at 130 percent of the contractor's purchase price (see **R5.3** and **R5.6**). District fuel expenditures increased because of the increase in price of fuel during the time period under examination.

## **Audit Objectives for the Transportation Section**

The following is a list of the questions used to evaluate the MELSD transportation function:

- How can the District improve the accuracy and reliability of its transportation data?
- How does the District's transportation service compare with peer districts and/or industry standards to determine efficient operation?
- How does the District's allocation of transportation expenditures and cost ratios compare with peer districts?
- Is the District effectively and efficiently maintaining and managing its fleet?

## Recommendations

- R5.1 MELSD should review its bus routes on an annual basis to verify ridership and route efficiency and accuracy. The District should first consider purchasing routing software to assist with designing routes, decreasing the number of miles traveled and the amount of time paid to drivers, and reducing student travel time. The review should also include confirmation of directions, testing of the validity of timing points, and a requirement that the Transportation Coordinator drive some of the routes on a periodic basis to verify route times.**

In its response to the audit, MELSD officials noted that the district participated in an informational meeting with TRANSFINDER Bus Routing in the spring of 2009. The software system would cost the district a one-time cost of \$5,000 and \$2,000 annually. Unfortunately, they noted that it takes nearly a year to set-up the system and software so MELSD would not be able to use this system at the start of the 2009-10 school year. Auditors encourage MELSD to consider making the investment in the software in preparation for the 2010-11 school year.

The District's Transportation Coordinator does not do a formal review of bus routes during the year. With input from the bus drivers, the Transportation Coordinator develops the routes and adjusts them as needed. Bus drivers time their routes at the beginning of the year and they are paid for the rest of the year based on the timing of routes. Regular bus drivers and special education drivers are paid for working an average of approximately 5 ½ hours per day. To ensure accuracy of the routes and times, the Transportation Coordinator uses a map of the District to estimate the amount of time for each route. The Transportation Coordinator then compares the estimated time with the bus drivers' actual times and identifies any large differences, and gives the results of the comparison to the Superintendent. The Superintendent then reviews route times and requests that individual routes be retimed if necessary.

MELSD does not use automated routing software, but rather keeps a file of hard copy routing sheets and maps. The District uses a two-tiered routing system and staggered bell schedules. Because MELSD is a large, primarily rural District, there are few walkers and the District provides door-to-door pick up with few exceptions. The Transportation Coordinator indicated the District's goal is to place 50 to 60 students on each high school/junior high route, and 65 to 69 students on each elementary route. Excluding special education routes and the vocational route, MELSD's ridership per bus was 95.2 in FY 2007-08 (see *issue for further study* in **executive summary**). The District's 2007-08 ODE adjusted target ridership is 48.5, and it has a ridership ratio of 1.73, indicating the District's ridership is more efficient, on average, than similar districts in the State.

According to a representative with the ODE Pupil Transportation Department, school districts should review all routes on a regular basis. A route review would include verifying the ridership as well as the accuracy of the route itself, including directions and various timing points. There are a number of viable methods for doing this, including driver reports, tests of the validity of timing points, and the use of onboard monitoring equipment.

*A Method for Evaluating of School Bus Routing – A Case Study of Riverdale, New Jersey* (Transportation Research Board, 2001) found that, of three accepted methods of routing, automated routing generated the highest degree of efficiency and, correspondingly, the lowest cost. Although Riverdale is a small district (about 200 students transported), routing software generated efficiencies that, while smaller in scale, were comparable to larger districts.

MELSD's salary costs per active bus are \$21,200, 43.1 percent higher than the peer average of \$14,817. The District's high mileage driven and longer routes, along with the 30 minute fueling and bus inspection provision in the classified contract, contribute to the District's high salary costs per active bus. Considering the high personnel costs, it is important that the District manage driver time and the duration of its routes. Using more aggressive route management to reduce the aggregate number of hours spent driving routes would help the District better control its personnel costs. A higher level of oversight and supervision would also help the District better ensure that the work time paid by the District is used for productive work.

*Financial Implication:* If MELSD purchased routing software, it would incur a one-time cost of about \$10,000 and an annual maintenance fee of approximately \$2,000.

**R5.2 The District should consider combining its two special education routes to be more efficient and/or use other strategies for transporting special education students to reduce costs. It should consider contracting with another District, reorganizing routes to mainstream more students, contracting with parents, and/or using vans to transport these students.**

In their response to the audit, MELSD administrators noted the two special education routes transport students to over six different schools in the morning. Logistically, they feel that the District could not transport these students to all of the schools on time without running two separate routes. Auditors encourage MELSD to seek other methods, including partnerships with neighboring districts to achieve cost savings in special education transportation.

During FY 2007-08, the District used two special education buses to transport special education riders. One bus transports six special education students, and the second bus

transports five special education students and two non-public students (to Piqua Catholic School). The bus which transports the non-public riders is a full-size bus with a rated capacity of 72 passengers, while the other special education bus has a capacity of approximately 50 passengers. The District transports the special education riders to various sites outside the District for special education programs MELSD does not provide.<sup>2</sup> According to the Superintendent, special education coordinators and principals meet with transportation staff about transportation-related IEP provisions, and they consult with him about the effect of these provisions on transportation.

MELSD's special education cost per rider is approximately \$8,580, which is approximately 40 percent higher than the peer average. By using other special education transportation options, the District could decrease its high special education transportation costs. MELSD is adjacent to Tipp City, Troy, and Piqua school districts. Tipp City and Troy are larger districts, characterized as urban/suburban high median income and Piqua City School District, also larger than MELSD, is characterized as urban low median income. The close proximity of MELSD to urban/suburban districts should give it more options for contracting with these districts to transport certain special education riders.

If the District reduced special education transportation to a level comparable to the peers, it could save \$26,500. However, due to the difficulty of comparing special education needs across districts, financial savings cannot be reliably quantified.

**R5.3 The District should seek bids for its bus insurance and maintenance contract to ensure it obtains the best prices for these services. In addition, MELSD should explore partnering with a nearby district to contract for maintenance services.**

**In the response to the audit, MELSD noted it had contacted three neighboring districts seeking to partner with these districts to contract for maintenance services. None of these three districts, although all larger than Miami East, were able to fulfill this request. Auditors encourage MELSD to continue its outreach efforts to obtain better pricing on its insurance and maintenance services.**

The District does not receive bids or formal written quotes for bus insurance or its bus maintenance contract. The Superintendent indicated numerous insurance providers contact the District during the bus insurance open enrollment period and MELSD selects the lowest price from these vendors. The Superintendent also indicated that the District

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<sup>2</sup> Bus #1 transports four pre-school special education riders to the Stouder Center, one special education student to Troy CSD High School, and one special education student to Tipp City Exempted Village Schools High School. Bus #17 transports five special education students to four different locations (Piqua CSD Junior High School, Piqua CSD Favorite Hill Primary Elementary School, Piqua CSD Springcreek Primary Elementary School, and Piqua CSD Wilder Intermediate Elementary School).

did not receive bids or quotes for the bus maintenance agreement because there are a limited number of contractors available due to the rural nature of the District. Although auditors did not seek to identify alternative vendors as part of the audit work, they provided the District with suggestions for expanding the vendor pool. As required by law, the District does receive bids for bus purchases.

The District has purchasing policies stating that the Superintendent or designee should receive at least three quotes on purchases greater than \$5,000, except in cases of an emergency or when price negotiations would not result in savings for the District. The District also has a purchasing policy indicating that, for supplies and equipment exceeding \$25,000, competitive bids are required. Ohio law does not require school districts to obtain competitive bids for services in all instances. However, in order to obtain the lowest price possible, the District should be encouraged to follow its purchasing policies and obtain formal quotes for services like insurance that cost above \$5,000, and receive bids for services (e.g., bus maintenance contract) which cost more than \$25,000.

MELSD indicated it explored the option of partnering with other school districts to share costs and responsibilities for providing bus repair and maintenance services, but the districts contacted did not have the capacity or staff to work on MELSD's buses.

**Table 5-5** shows MELSD FY 2007-08 yellow bus maintenance and repairs expenditures per rider, per active bus, and per mile, as well as bus insurance expenditures per active bus.

**Table 5-5: FY 2007-08 Maintenance and Repairs and Bus Insurance**

	MELSD	Peer Average	Percent Difference
<b>Maintenance and Repairs</b>			
Per Rider	\$116.78	\$ 120.53	(3.1%)
Per Active Bus	\$9,209.29	\$6,319.36	45.7%
Per Routine Mile	\$0.46	\$0.60	(23.7%)
<b>Bus Insurance</b>			
Per Bus <sup>1</sup>	\$788.81	\$565.82	39.4%

**Source:** MELSD and peer transportation data as reported to ODE.

<sup>1</sup> Bus insurance was only compared on a per bus basis, because insurance costs are based primarily on the total number of buses covered.

According to the Ohio School Law Manual (Anderson's Ohio Practice Manual Series, 2006), where substantial expenditures are involved, it is suggested as a matter of sound administrative practice that boards of education obtain informal quotations from potential suppliers of non-bid items. Although there is no legal requirement to do so, such procedures help to establish that board members are acting fairly and in good faith, and that funds are being used to maximum advantage. The Ohio School Law Manual also

states that while a school district is not ordinarily required to undertake competitive bidding when acquiring supplies and services (except in connection with school construction), it is sound financial practice to use such a procedure (or some other competitive process).

Partnering with a nearby district to pool resources for bus maintenance services is one option the District could explore. During FY 2004-05, Barberton City School District (Barberton CSD) had a formal agreement with Norton City School District (Norton CSD) to share the costs and responsibilities of providing bus repair and maintenance services. According to Barberton CSD's Business Manager, the contract with Norton CSD resulted in a 25 percent decline in the District's maintenance and repair costs. Moreover, repairs were performed in a timely manner, and all State inspections were satisfactory. MELSD is adjacent to Tipp City, Troy, and Piqua school districts, which are suburban and/or urban districts. This should allow MELSD more options to identify potential partners for its maintenance service needs and discuss options with them for obtaining maintenance services.

Without competitively bidding service contracts or ensuring the District receives quotes for commonly used transportation services, the District may be paying higher prices for its purchased services.

*Financial Implication:* If the District were able to achieve maintenance and repairs expenditures per active bus similar to the peers, it would save approximately \$40,000.

- R5.4 MELSD should create and maintain a written bus replacement plan to ensure that it is properly planning and budgeting for new bus purchases. The bus replacement plan should include the age and mileage of every bus in the fleet, as well as estimates of bus age and mileage at the projected replacement dates. The District should link the plan to its budget. In addition, it should update and evaluate the replacement plan annually and it should include all maintenance and repair costs for each bus in the evaluation. Developing a replacement plan containing this information will help the District more effectively plan for the replacement of buses at the most advantageous points in their lifecycles.**

The District does not have a written bus replacement plan. The Superintendent indicated that the District typically replaces one bus each year, and receives bids to ensure the lowest purchase price. The District funds bus purchases primarily through its permanent improvement levy, though it used the ODE bus purchase allowance to fund approximately 19 percent of last year's purchase. The Superintendent works with the bus maintenance contractor, and also receives input from the Transportation Coordinator and bus drivers, to determine which bus needs replaced, which is typically the bus with the highest mileage, although repair costs and age are also factors. The Superintendent is able

to track bus maintenance costs through reports submitted from the bus maintenance contractor. Although the process used by MELSD meets recommended practices, the District does not formally maintain this information, nor does it document its decision-making process.

*School Bus Replacement Considerations* (NASDPTS, 2002) offers some suggested replacement guidelines. According to NASDPTS, buses should be replaced after 250,000 miles and/or 12 to 15 years of service. Maintenance and operating cost data on individual buses may provide the information needed to better define when individual or groups of school buses should be replaced. Accurate and thorough records on the operating and maintenance costs (both preventive and corrective maintenance) of all school buses in a fleet will provide the data necessary to analyze and understand costs. Determining funding sources is an important consideration in determining when school buses should be replaced. According to NASDPTS, establishing school bus replacement policies is an important activity, since it directly impacts the latest safety, efficiency, and emissions improvements of the fleet. Districts should plan for the elimination of school buses that do not meet the latest standards or requirements within a realistic number of years.

There are no State guidelines for bus replacement, beyond the requirement that a bus must be able to pass annual Ohio State Highway Patrol inspections. As long as the bus can pass the inspection, a district may continue to use the bus for transportation, regardless of age or mileage.

According to *2007 Maintenance Survey: Technician Wages Continue to Spiral Upward* (School Bus Fleet, April/May 2007), the average age of a school bus fleet was reported to be 8.4 years, and a large bus (over 30 passenger capacity) average retirement age is 14.6 years. According to an ODE representative, in January 2008, the average age of a bus in Ohio was 8.5 years.

By creating and maintaining a replacement plan, and including factors such as age, mileage, and maintenance costs per bus, MELSD can ensure that it is prepared for these future capital expenditures. Without an updated bus replacement plan, MELSD may be unprepared for large future capital obligations and may devote additional resources to maintaining more costly buses.

**R5.5 MELSD should consider selling a minimum of four spare buses, which would result in a spare bus allocation that is more consistent with ODE's guidelines and the peer average. Additionally, selling four spare buses would generate revenue and reduce the District's insurance maintenance and repair costs. To ensure that it is making appropriate adjustments based on changing conditions, MELSD should annually review the ratio of spare buses relative to its total fleet.**



In FY 2008-09, the District maintained 8 spare buses and 14 active buses (a 57 percent ratio of spare buses to active buses). The peer district average ratio of spare buses to total buses for FY 2007-08 was approximately 25 percent, in line with ODE recommended practices. If MELSD reduced 4 spare buses, the ratio of spare buses to per active buses would be 28.6 percent.

According to the ODE Office of Pupil Transportation, districts should review their fleets to determine if they have too many spare buses. ODE assumes districts only need one spare bus for every four active buses. However, the level of non-routine transportation (field trips, extracurricular activities, etc.) at a district may increase the need for spare buses.

MELSD's Transportation Coordinator indicated that the District needed a high number of spare buses because its buses experience more wear and tear due to the long, rural routes with harsher road conditions. These conditions result in frequent repairs and down time for its buses. The Transportation Coordinator also indicated that if one or two buses are being repaired, all the spares are sometimes used for non-routine trips during the day. The District's buses drove 35,231 non-routine miles in FY 2007-08, compared with 22,379 for the peers. If the District was able to better coordinate its field trip schedule by spreading its planned trips over the course of several days, it would reduce its need for spare buses.

In addition, the District's bus maintenance contract bills per bus, so maintaining more spare buses increases bus maintenance costs. If the District reduced four spare buses from its fleet, it would save approximately \$12,000 in annual bus maintenance charges.

*Financial Implication:* To bring its spare bus ratio in line with industry averages, the District should sell four spare buses. The District could generate one-time revenue of \$17,200 from selling the spare buses, and could save approximately \$12,000 in annual bus maintenance charges.

**R5.6 The District should use performance metrics to monitor its bus maintenance contract and other contracts for services. Performance metrics include developing performance criteria, defining an evaluation plan, monitoring contractor performance monthly, and conducting a final performance evaluation of the contract. Developing performance metrics is an effective way to determine if a contractor is providing the requested service.**

The District does not use pre-established criteria to monitor its bus maintenance contract or other contracts it has for services (e.g. facilities maintenance). MELSD uses multiple staff to monitor the bus maintenance contract. The Superintendent serves as the District's

contract manager<sup>3</sup> and is responsible for monitoring the bus maintenance contract via contractor provided reports that track costs and services performed. The Treasurer reviews invoices and payments, and reconciles budgeted to actual costs. The Transportation Coordinator monitors deliverables and the quality of work performed. The 2007 calendar year was the first year of the bus maintenance contract, and its duration was from January 1, 2007 to December 31, 2008. The District planned to complete a formal evaluation of the contract at the end of 2008 when the contract terminated, but as of November 2008, it had not completed an evaluation of the contractor. The bus maintenance contract does not contain pre-established criteria for monitoring.<sup>4</sup> The District renewed the contract upon its expiration.

The Superintendent indicated that although the District does not use pre-established criteria to evaluate outside contracts for services, it uses input from drivers and the Transportation Coordinator to determine if the performance of the bus maintenance contractor is satisfactory and if work performed meets District needs.

According to *Contracting for Services* (NSAA, 2003), contract monitoring is an essential part of the contracting process. To monitor a contract, a district should:

- Assign a contract manager with the authority, resources, and time to monitor the project;
- Ensure that the contract manager possesses adequate skills and has the necessary training to properly manage the contract;
- Track budgets and compare invoices and charges with contract terms and conditions;
- Ensure that deliverables are received on time and document the acceptance or rejection of deliverables;
- Withhold payments to vendors until deliverables are received;
- Retain documentation supporting charges against the contract; and
- After contract completion, the agency evaluates the contractor's performance on this contract against a set of pre-established, standard criteria, and retains this record of contract performance for future use.

According to *The Best Ways to Define and Implement Performance Metrics* (Contract Management, 2008), using performance metrics on service contracts is generally accepted as the best way to determine if the contractor is providing the requested services

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<sup>3</sup> The Superintendent can monitor facilities contracts by accessing information on-line to determine the schedule to perform maintenance work, including dates of inspections, what system was tested, and if systems/areas passed inspection. A similar system could be developed for transportation maintenance contracts

<sup>4</sup> Examples of criteria could include total actual costs for the contract and costs per bus, timeliness of repairs, number and amount of charges over the monthly billing rate, buses passing the annual Ohio Highway Patrol inspections, and number and costs of unplanned repairs.

under the contract. There are five steps to successfully using performance metrics in a service contract.

- **Develop Performance Criteria:** Developing a performance-based contract starts with the request for proposal (RFP) and includes the statement of work (SOW), which describes the work the government needs to have performed. To be performance-based, the SOW must include specific outcomes that clearly identify what needs to be done.
- **Define an Evaluation Plan:** The RFP should have a performance evaluation component and measurement plan (PEMP) to establish performance requirements and measures for performance evaluation and distribution of potential fees to be earned. The PEMP should tie the fee to the desired outcome. The description in the RFP should address the possibility of objective performance measures, subjective performance measures, or some combination of both. The PEMP should be mutually developed by the contractor and the government. The PEMP should include a background section with objectives, and a measurement section that expresses desired performance result in terms of grades.
- **Track Performance Status Monthly:** After the PEMP is successfully negotiated and incorporated into the contract, performance should then be reviewed on a monthly basis. Depending on the value and complexity of the contract, a formal or informal database may be used to track performance status.
- **Conduct Annual Self-Assessments:** The contractor should conduct an annual self-assessment to take an independent look at itself with respect to performance against the criteria in the PEMP. While the contract may or may not require the contractor to submit its self-assessment to the government, it is an excellent tool for the contractor to use to address its perceived strengths and weaknesses during the evaluation period.
- **Conduct Annual Final Performance Evaluations:** The government should evaluate the contractor's performance at the conclusion of the fiscal year or the end of the evaluation period, unless otherwise defined. The government should review the self-assessment report if submitted, and the final performance of each objective on the basis of the cumulative performance and monthly reports. Although the defined requirements are the primary means for determining performance, other performance information from additional sources may be used in determining the overall success in meeting that objective. Examples of such sources include customer service evaluations and operational awareness or daily oversight activities.

Without using performance metrics to monitor its bus maintenance contract and other contracts for services, MELSD cannot effectively ensure that contractors comply with contract terms, meet performance expectations, and resolve any problems with the service. Without a sound monitoring process, The District does not have adequate assurance it receives what it requests in its contract. In addition, maintenance and repairs cost per bus in FY 2007-08 were approximately \$9,209, 45.7 percent higher than the peers. Without using performance metrics to monitor costs, MELSD may not effectively monitor or control maintenance and repair costs.

## Financial Implications Summary

The following table is a summary of estimated annual costs and savings, as well as one-time costs and revenue enhancements. Only recommendations with quantifiable impacts are listed in the table.

**Table 5-6: Summary of Financial Implications for Transportation Section**

Recommendation	Annual Costs	One-Time Expense	Annual Savings	One-Time Revenue
<b>R5.1</b> Purchase routing software	\$2,000	\$10,000		
<b>R5.3</b> Receive formal written quotes for bus insurance and bid the maintenance contract to obtain lower costs similar to peers			\$40,000	
<b>R5.5</b> Sell four spare buses			\$12,000	\$17,200
<b>Total</b>	<b>\$2,000</b>	<b>\$10,000</b>	<b>\$60,000</b>	<b>\$17,200</b>

Source: AOS recommendations

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## **District Response**

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The letter that follows is the Miami East Local School District's (MELSD) 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.





# MIAMI EAST LOCAL SCHOOL DISTRICT

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Casstown, Ohio 45312  
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Todd Rappold  
*Superintendent*  
Michael R. Sommer  
*Treasurer*

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July 21, 2009

Auditor of State  
Mary Taylor, CPA  
Office of the Auditor of State of Ohio  
88 E. Broad Street  
Columbus, Ohio 43215

Dear Ms. Taylor,

The Miami East Board of Education received a draft of the performance audit prior to a post audit meeting held on Monday, July 6, 2009. The Auditor of State's Office conducted the audit as a result of projected negative balances on the District's Five Year Forecast. The items contained in the audit were recommended to help the District navigate through uncertain financial times now and in the future.

As always, we will continue to monitor expenditures/revenues as we work through this difficult economic time. Every year we have worked very hard to improve our academic status and we will work equally as hard to continue to improve our financial status. We are aware that this will not happen overnight and that it takes time and effort to achieve these goals.

The District is in the process of reviewing the suggestions recommended by the audit. For example, the district is currently reviewing staffing levels, a process that is done every year. Additionally, the district monitors sick leave, requires supervisors to obtain multiple quotes when purchasing, has explored potentially reducing the spare bus fleet, has formalized a bus replacement plan, and uses the District's Strategic Plan to help guide the district academically and financially.

We appreciate the accomplishments that were included in the performance audit as a result of our proactive approach toward a number of your recommendations. We were also appreciative of the acknowledgement from your office for the fiscal accomplishments the district has already achieved. These include:

- The district has always abided by the purchasing policies associated with the commodity purchasing and participates in the Educational Purchasing Cooperative (EPC) to purchase other food related items.
- The district has decreased the number of staff members across the district each year for the past five years. Over the past four years the district has reduced it's staffing by two administrators and several interpreters and aides.

- The district possesses and has used a Facilities Master Plan created by the Ohio Schools Facilities Commission. In addition, the district has a 5-year strategic plan which includes a facilities committee and goals. Lastly, the district has created a Comprehensive Safety Plan as required by Jarod's Law. This Comprehensive Safety Plan includes a lengthy detailed preventative maintenance section. There are four copies of this plan distributed in each of the buildings across the district.
- The district participated in an informational meeting with TRANSFINDER Bus Routing this spring. The software system would cost the district a one-time cost of \$5,000 and \$2,000 annually. Unfortunately, it takes nearly a year to set-up the system and software so the district will not be able to utilize this system at the start of the 2009-2010 school year.
- The district made contact with three neighboring districts seeking to partner with these districts to contract for maintenance services. None of these three districts, although larger than Miami East, were able to fulfill this request.

Hopefully, before any further staff reductions occur, there will be considerable discussion concerning the level and quality of services our students receive. Other audit proposals suggest that policies be developed or operating procedures established to create greater efficiency or higher operating standards. The process of implementing some of these recommendations can be started by the start of the school year.

The remaining audit recommendations will be studied and considered in the near future. Many of these items are covered by one of the district's two negotiated agreements. Therefore, these recommendations would have to be presented at the bargaining table the next time the negotiations process is begun with the appropriate employee group.

Undoubtedly all of the recommendations that you have enclosed in this report will be studied and expeditiously implemented, if at all possible



Dr. Todd Rappold  
Superintendent



Michael Sommer  
Treasurer