



Mary Taylor, CPA
Auditor of State

NORTHWEST LOCAL SCHOOL DISTRICT PERFORMANCE AUDIT

DECEMBER 4, 2008



Mary Taylor, CPA
Auditor of State

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

In accordance with House Bill 119, a performance audit was conducted in Northwest Local School District. The functional areas assessed in the audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of District operations that support its educational mission, and because improvements in these areas can assist the District in improving its financial condition.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The audit also provides an independent assessment of the District's financial situation and a framework for improving its financial condition. While the recommendations contained in the audit report are resources intended to assist in improving efficiency, the District is encouraged to assess overall operations and develop additional alternatives.

An executive summary has been prepared which includes the project history; a district overview; the scope, objectives and methodology for the performance audit; and a summary of recommendations, noteworthy accomplishments, assessments not yielding recommendations, issues for further study and financial implications. This report has been provided to the District, and its contents discussed with the appropriate elected officials and administrators. The District has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. This performance audit is also accessible 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

December 4, 2008

Executive Summary

Project History

In accordance with House Bill 119, the Auditor of State (AOS) conducted a performance audit of Northwest Local School District (NLSD or the District). Based on AOS research and discussions with NLSD officials, the following areas were assessed in the performance audit:

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

District Overview

NLSD operates under a locally elected Board of Education consisting of five members and is responsible for providing public education to the residents of the District. NLSD is located in Stark County. In FY 2006-07, the District received approximately 58 percent of its General Fund revenues from the State and 38 percent from local property taxes. In FY 2006-07, the District's per pupil expenditures equaled \$8,096 in the General Fund

NLSD consists of five school buildings located on one campus: two elementary schools (grades K-2 in one school, and grades 3-4 in the other school), one intermediate school (grades 5-6), one middle school (grades 7-8), and one high school (grades 9-12). The District had a total of approximately 272 full-time equivalent (FTE) employees in FY 2007-08, consisting of approximately 15 administrative FTEs, 154 education FTEs, 4 professional FTEs, and 99 classified and other support staff FTEs. These employees were responsible for providing services to an average daily membership (ADM) of 2,335 students. Students with physical and learning disabilities comprise approximately 14 percent of the student population. During the course of this performance audit, the District reduced staffing levels (see **noteworthy accomplishments**).

The District submitted a five year forecast in October 2007. The forecast shows the District's financial condition has declined over the last three years, as a surplus of nearly \$2.4 million in FY 2004-05 turned into a deficit of approximately \$356,000 in FY 2006-07. Furthermore, the District is projecting a deficit of approximately \$9.5 million in FY 2011-12. The Ohio Department of Education (ODE) placed Northwest Local School District in fiscal caution on July 14, 2008, due to the anticipated deficits. The District must provide a written plan to ODE that outlines the steps it will take to correct the practices or conditions that led to the declaration. Failure to submit an acceptable proposal under fiscal caution could lead to the Auditor of State

(AOS) placing the district in fiscal watch. ODE accepted NLSD's fiscal caution proposal on October 30, 2008. Lastly, ODE designates school districts as excellent, effective, continuous improvement, academic watch or academic emergency. NLSD was designated as an effective school district during FY 2006-07.

Objectives

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.

The overall objective of this performance audit is to assist the NLSD in identifying strategies to reduce expenditures and, in turn, help eliminate future deficits. The following presents the major assessments conducted in this performance audit:

- Expenditures, forecasting, planning, budgeting, and purchasing were reviewed in the financial systems section.
- District-wide staffing levels, collective bargaining agreements, salary levels, benefit costs, and food services were assessed in the human resources section.
- Custodial and maintenance staffing, facility-related expenditures, policies and procedures, preventative maintenance and planning, and the work order system were examined in the facilities section.
- Transportation staffing and expenditures, reporting, and policies were reviewed in the transportation section.

The recommendations in the performance audit comprise options that NLSD can consider in its continuing efforts to stabilize its financial condition.

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Audit work was conducted between February 2008 and August

2008. To complete this report, the auditors gathered a significant amount of data pertaining to the District, conducted interviews with numerous individuals, and reviewed and assessed available information from various sources. District data was deemed reliable unless otherwise noted in the report sections. In addition, the performance audit did not include formal reliability tests of NLSD's ADM or student headcount data used in the financial systems and human resource sections. Trend analyses suggest these data were reasonable and no further testing was deemed necessary. Peer school district data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness and applicability.

The performance audit process involved significant information sharing with the District, 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. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, AOS modified the report based on the District's comments.

AOS developed a database of ten districts that was used for peer comparisons. The ten districts are classified as Type 6 school districts (Urban/Suburban – high median income) by the Ohio Department of Education (ODE). In addition, these ten school districts were meeting a high number of performance standards as measured by the Ohio school proficiency tests, at a relatively low cost per pupil. Specifically, the peer districts consist of Anthony Wayne Local School District, Canfield Local School District, Green Local School District, Jackson Local School District, Lake Local School District, North Canton City School District, Northmont City School District, Poland Local School District, Tipp City Exempted Village School District, and Wadsworth City School District. Furthermore, external organizations and sources were used to provide comparative information and benchmarks, such as the following:

- Government Finance Officers Association;
- American Institute of Certified Public Accountants;
- State Employment Relations Board;
- American School and University; and
- National Center for Education Statistics.

The Auditor of State and staff express appreciation to NLSD for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific NLSD accomplishments identified throughout the course of the audit.

In the area of Financial Systems:

- The District's discretionary spending per student was \$851 in FY 2005-06, which decreased to \$762 per student in FY 2006-07. By comparison, the peer average was \$878 per student in FY 2006-07. The difference per student in FY 2006-07 equates to the District spending approximately \$266,000 less on discretionary items than the peer average. This indicates that the District is limiting discretionary spending.

In the area of Human Resources:

- NLSD's reduced staffing levels by 26.5 FTEs, which will help improve the District's financial condition. When accounting for these reductions, NLSD overall employs fewer FTEs per 1,000 ADM when compared to the peer average.

In the area of Facilities:

- The District's expenditures per square foot in FY 2006-07 were lower than the peer average and AS&U national median in most of the categories.

Assessments Not Yielding Recommendations

Assessments conducted which did not warrant changes and did not yield recommendations include the following:

- **Financial Systems:** projections for state funding, and alternative funding sources for funding student activities;
- **Human Resources:** administrator staffing; compensation; medical insurance costs; worker's compensation premiums; and negotiated agreement provisions with a few exceptions (see **R3.3**);
- **Facilities:** overtime costs and staffing; and
- **Transportation:** non-routine trips and T-Form reporting.

Conclusions and Key Recommendations

The performance audit contains several recommendations pertaining to NLSD. The following are the key recommendations from the report:

In the area of Financial Systems, NLSD should:

- Analyze and use **Table 2-6** to evaluate the effect of recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit and other appropriate actions to avoid the projected operating deficits. In addition, the Treasurer should update **Table 2-6** on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. In particular, the Treasurer should ensure that there is sufficient documentation to support the projections in benefits, and correct errors to ensure accuracy in the forecasted figures for benefits and real estate. Going forward, the Treasurer should consider developing separate assumptions and supporting documentation for the major components within the employee benefits line-item (i.e., health insurance). The Treasurer should also include more detail in the assumptions accompanying the forecast. Lastly, NLSD should regularly discuss potential options for reducing costs and/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.
- Develop a comprehensive strategic plan which outlines its vision for all operational and educational programs. In preparing the plan, the District should include measurable goals, objectives, timeframes, performance measures, and cost estimates (where applicable). In addition, NLSD should link the strategic plan to the budget and the five-year forecast.
- Form an audit committee to oversee the financial audit and review the District's internal control structure. This will help ensure that the District develops and adheres to a sound system of internal controls, and addresses audit citations.
- Consider lowering the minimum requirement to obtain multiple price quotes and adopt a formal policy on cooperative purchasing. Doing so would provide the Board with more assurance that the District's goods and services are being purchased at a fair price and that objective decisions are being made regarding vendor selection.

In the area of Human Resource, NLSD should:

- Continually monitor student-to-teacher ratios and Educational Service Personnel (ESP) staffing ratios, and regularly evaluate the impact of potential staffing changes, both financially and educationally. If the District does not implement the performance audit

recommendations and other strategies to reduce costs, it should consider further reducing regular education and ESP staffing levels. Even after the Board-approved reductions, the District could reduce its regular education and ESP teachers by up to 14 FTEs and still meet State minimum requirements. However, NLSD should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education.

- Negotiate to require all full-time employees receiving medical insurance benefits to contribute at least ten percent towards monthly premiums. This would make the District's employee contribution levels similar to the Ohio Education Association (OEA) averages, but still lower than the Kaiser and State Employee Relations Board (SERB) averages.
- Negotiate for a reduction in the maximum number of sick days that employees can accrue and the number of days paid out in severance upon retirement. This would decrease the District's long term liability associated with sick leave severance payments.

In the area of Facilities, NLSD should:

- Establish a formal preventive maintenance (PM) program that addresses all routine, cyclical, and planned building maintenance functions. NLSD should also consider implementing an electronic work order system, which can help the District track preventive maintenance tasks and schedules, and related maintenance costs.
- Continue working with the OSFC in an effort to complete a long-term facilities master plan that addresses all capital improvement needs. This includes finding ways to obtain the funding needed for the OSFC to start implementing the plan.

In the area of Transportation, NLSD should:

- Use its routing software to develop various run scenarios that would help identify changes to improve bus utilization and overall efficiency. In particular, the District should use the routing software to identify potential methods of route consolidation and cluster stops in areas that will not jeopardize the safety of its students. Likewise, the District should use the routing software to review the potential of increasing runs per bus. This review should ensure that such a decision would be cost-effective, consider student ride times, and ensure the adjusted pick up and drop off times are appropriate. Even with the Board's recent elimination of high school transportation services and the corresponding reductions in bus driver hours, the above strategies should enable the District to eliminate at least three active buses. When determining which buses to eliminate, the District should analyze the maintenance cost of each bus and eliminate the buses with the highest maintenance costs.

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 resources to pursue. AOS has identified the following issues for further study.

In the area of Financial Systems, NLSD should:

- Consider reviewing the operations comprising central support services to determine potential strategies of reducing costs to be more in line with the peer average.

In the area of Human Resource, NLSD should:

- Review its special education program to determine if further staffing and cost reductions are possible, taking into account any IEP requirements and other available resources in the surrounding area.
- Assess the experience of staff and identify training needs to ensure accurate EMIS reporting.
- Review purchasing practices for food service operations and other factors contributing to the higher supply and material expenditures, which may be aided by **R2.9** in the **financial systems** section.

In the area of Transportation, NLSD should:

- Research competitive pricing for bus insurance coverage and other strategies to help reduce bus insurance costs.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Summary of Financial Implications

Recommendation	Estimated Annual Costs	Estimated Annual Cost Savings
Recommendations Not Subject to Negotiations		
R3.1 Consider reducing regular teacher and ESP staffing levels to State minimum standards		\$715,000
R4.1 Consider purchasing a work order system.	\$3,200	
R5.1 Eliminate at least three active buses (savings in salaries and benefits)		\$21,100
R5.1 Eliminate at least three active buses (savings in bus insurance costs)		\$3,000
TOTAL (Not Subject to Negotiations)	\$3,200	\$739,000
Recommendations Subject to Negotiations		
R3.3 Require employee contributions for healthcare of at least 10 percent		\$121,000
TOTAL (Not Subject to Negotiations)		\$121,000
TOTAL RECOMMENDATIONS	\$3,200	\$860,000

Source: AOS recommendations

Financial Systems

Background

This section focuses on the financial systems within the Northwest Local School District (NLSD or the District). The executive summary of this performance audit includes the audit objectives for this section. Various sources were used for comparison purposes, including the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), and selected peer school districts¹.

Ohio Revised Code (ORC) 3316.03 allows the Auditor of State (AOS) to place a school district in fiscal watch or fiscal emergency when it meets certain criteria. ORC §3316.03 was amended effective April 10, 2001 to give the Ohio Department of Education (ODE) the ability to place a school district in fiscal caution if it identifies fiscal practices or budgetary conditions that, if left uncorrected, could lead to fiscal watch or emergency conditions. During the course of this audit, ODE placed NLSD into fiscal caution (July 14, 2008) due to anticipated deficits. The District has 60 days to provide a written plan to ODE that outlines the steps it will take to correct the practices or conditions that led to the declaration. Failure to submit an acceptable proposal under fiscal caution could lead to AOS placing the district in fiscal watch. ODE accepted NLSD's fiscal caution proposal on October 30, 2008.

Financial Condition

Table 2-1 presents the five-year forecast submitted to ODE in October 2007. It was prepared by the Treasurer and used to assist Board members, administration, and other stakeholders in understanding the District's financial situation.

¹ See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 2-1: NLSD Financial History and Forecast (in 000s)

	Actual 2004-05	Actual 2005-06	Actual 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
Real Estate Property Tax	\$5,661	\$5,700	\$6,083	\$6,191	\$6,253	\$6,315	\$6,378	\$6,442
Tangible Personal Property Tax	\$649	\$665	\$483	\$422	\$307	\$227	\$122	\$0
Unrestricted Grants-in-aid	\$8,509	\$8,799	\$9,018	\$9,191	\$9,237	\$9,421	\$9,610	\$9,802
Restricted Grants-in-aid	\$90	\$76	\$79	\$72	\$74	\$90	\$90	\$95
Property Tax Allocation	\$784	\$778	\$977	\$1,134	\$1,189	\$1,239	\$1,252	\$1,264 ¹
Other Revenues	\$527	\$592	\$719	\$720	\$728	\$547	\$553	\$558
Total Operating Revenues	\$16,220	\$16,610	\$17,359	\$17,730	\$17,786	\$17,840	\$18,004	\$18,161
Salaries & Wages	\$10,464	\$11,781	\$11,321	\$11,336	\$11,676	\$12,026	\$12,387	\$12,759
Fringe Benefits	\$3,297	\$3,560	\$4,385	\$4,219	\$4,557	\$4,921	\$5,315	\$5,740
Purchased Services	\$1,754	\$1,921	\$1,742	\$1,675	\$1,792	\$1,882	\$1,976	\$2,074
Supplies, Materials & Textbooks	\$627	\$605	\$587	\$298	\$558	\$503	\$700	\$725
Capital Outlay	\$151	\$316	\$282	\$41	\$175	\$100	\$200	\$200
Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Expenditures	\$287	\$281	\$289	\$161	\$225	\$24	\$245	\$260
Total Operating Expenditures	\$16,580	\$18,464	\$18,606	\$17,730	\$18,982	\$19,457	\$20,823	\$21,759
Net Transfers/Advances	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Financing Sources	\$4	\$128	\$74	\$5	\$5	\$5	\$5	\$5
Net Financing	\$4	\$128	\$74	\$5	\$5	\$5	\$5	\$5
Result of Operations (Net)	(\$356)	(\$1,725)	(\$1,173)	\$5	(\$1,191)	(\$1,612)	(\$2,814)	(\$3,592)
Beginning Cash Balance	\$3,266	\$2,911	\$1,185	\$12	\$17	(\$1,174)	(\$2,786)	\$5,600
Ending Cash Balance	\$2,911	\$1,185	\$12	\$17	(\$1,174)	(\$2,786)	(\$5,600)	(\$9,193)
Encumbrances	\$558	\$373	\$377	\$350	\$350	\$350	\$350	\$350
Ending Fund Balance	\$2,352	\$812	(\$365)	(\$333)	(\$1,524)	(\$3,136)	(\$5,950)	(\$9,543)

Source: NLSD

Note 1: Totals may vary due to rounding

Note 2: The October 2007 forecast also included a row labeled "Property Tax – Renewal or Replacement." However, according to the Treasurer, this row actually reflected proceeds from a potential new levy. Since this levy was defeated by voters, it was excluded from Table 2-1.

¹ Based on HB 66, reimbursements related to the phase out of tangible personal property will begin to be phased out in FY 2011-12. As the Treasurer forecasted an increase in property tax allocation, this category appears overstated. Therefore, the Treasurer should ensure that the forecast appropriately accounts for the phase-out in reimbursements.

Table 2-1 shows that the District's financial condition has declined over the last three years as a surplus of nearly \$2.4 million in FY 2004-05 turned into a deficit of \$356,000 in FY 2006-07. Furthermore, the District is projecting a deficit of approximately \$9.5 million in FY 2011-12. AOS reviewed the assumptions that significantly impact the forecast, primarily real estate taxes, state funding, salaries and benefits, and identified potential changes to strengthen the forecast methodology and assumptions (see R2.4, R2.5 and R2.6).

Table 2-1 also shows that the District forecasted a deficit of approximately \$333,000 in FY 2007-08. However, at the conclusion of this audit, the actual expenditures for FY 2008 became available and revealed a deficit of approximately \$1.1 million in FY 2007-08. See **Table 2-6** for the AOS revised forecast that accounts for the impact of the District's actual FY 2007-08 ending balance, and the impact of **R2.4**, **R2.5** and **R2.6**.

Northwest LSD operates with a total voted General Fund millage of 49.9 mills, Permanent Improvement millage of 3.0 mills, and a bond retirement for school facilities maintenance and site acquisition of 7.0 mills for 2008. The District's emergency levy generates \$1.5 million annually and will run through the entire forecast period.

Revenue and Expenditure Comparisons

Table 2-2 compares NLSD's General Fund expenditures per pupil to the peer average for FY 2006-07.

Table 2-2: General Fund Revenues & Expenditures per Pupil

	NLSD FY 2005-06	NLSD FY 2006-07	Peer Average FY 2006-07
Property & Income Tax	\$2,823	\$2,858	\$4,237
Intergovernmental Revenues	\$4,278	\$4,407	\$3,294
Other Revenues	\$320	\$316	\$332
Total Revenue	\$7,420	\$7,582	\$7,863
Wages	\$5,222	\$4,925	\$4,668
Fringe Benefits	\$1,579	\$1,909	\$1,642
Purchased Service	\$852	\$758	\$733
Supplies & Textbooks	\$268	\$256	\$250
Capital Outlays	\$140	\$123	\$140
Debt Service	\$0	\$0	\$4
Miscellaneous	\$125	\$126	\$170
Other Financing Uses	\$0	\$0	\$103
Total Expenditures	\$8,185	\$8,096	\$7,710

Source: District and peer 4502

Table 2-2 shows that the District's total revenues are lower than the peer average by \$281 per student, mainly due to the lower property and income tax receipts. As the District's effective millage of 32.4 is comparable to the peer average of 33.5, the lower property tax receipts are due to having a lower adjusted recognized valuation (ARV) per student. Specifically, NLSD's ARV per student calculation used in the State funding formula in FY 2006-07 is approximately 29

percent lower than the peer average. In addition, the lower ARV per student contributes to the higher intergovernmental revenues per student because ARV is subtracted in the State Total Formula Aid calculation.

Table 2-2 also shows that despite the decline in expenditures per student from FY 2005-06 to FY 2006-07, the District's total expenditures exceeded the peer average by \$386 per student in FY 2006-07. Explanations for expenditure categories that are higher than the peer average include the following:

- **Wages:** The District spent \$257 more per student on wages in comparison to the peer average. This is due to the District employing more FTEs per 1,000 students when compared to the peer average. However, NLSD reduced 26.5 FTEs during the course of this performance audit. Additionally, despite the higher cost per student for wages, NLSD has lower starting, middle, and ending certificated salaries for both the bachelor and master's degree classifications when compared to the average of three peers (see **human resources** for further assessment).
- **Benefits:** The District's benefit expenditures exceeded the peer average by \$267 per student. As shown in **Table 2-1**, the District's benefit expenditures increased by 23 percent in FY 2006-07. According to the Treasurer, this is due to fund mapping errors (see **R2.6**), early retirement incentives (ERIs) and unemployment costs related to staffing reductions. Regardless of these factors, increasing employee contributions for health insurance would reduce NLSD's benefit expenditures. However, it should be noted that NLSD medical insurance costs per FTE are lower when compared to the peer average. (see **human resources** for an additional discussion).
- **Purchased Services:** The District's purchased services expenditures exceeded the peer average by \$25 per student. This is primarily due to tuition related expenses which comprised 39 percent of total purchased services in FY 2006-07. More specifically, the District's tuition related expenses per student of \$296 significantly exceeded the peer average of \$173 per student.
- **Supplies and Textbooks:** The District's spending in this category was slightly higher than the peer average. The District purchased new mathematics textbooks in FY 2006-07 at a cost of approximately \$155,000, which contributes to the slightly higher supply and textbook expenses per student.

Table 2-3 shows the Governmental Fund expenditures per pupil and percent of expenditures posted to the various Uniform School Accounting System (USAS) function codes for NLSD and the peer average.

Table 2-3: Governmental Expenditures by Function in 000's

USAS Function Classification	NLSD FY 2005-06		NLSD FY 2006-07		Peer Average FY 2006-07	
	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp	\$ Per Pupil	% of Exp
Instructional Expenditures:	\$5,515	62.5%	\$5,471	62.9%	\$4,860	59.0%
Regular Instruction	\$4,237	48.0%	\$4,266	49.0%	\$3,850	46.8%
Special Instruction	\$1,090	12.4%	\$1,017	11.7%	\$758	9.1%
Vocational Education	\$129	1.5%	\$128	1.5%	\$151	1.8%
Adult/Continuing Education	\$0	0.0%	\$0	0.0%	\$1	0.0%
Extracurricular Activities	\$0	0.0%	\$0	0.0%	\$0	0.0%
Classroom Materials and Fees	\$0	0.0%	\$0	0.0%	\$0	0.0%
Miscellaneous	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other Instruction	\$58	0.7%	\$60	0.7%	\$100	1.2%
Support Service Expenditures:	\$3,050	34.6%	\$2,968	34.1%	\$3,068	37.2%
Pupil Support Services	\$406	4.6%	\$425	4.9%	\$449	5.4%
Instructional Support Services	\$106	1.2%	\$113	1.3%	\$326	4.0%
Board of Education	\$30	0.3%	\$27	0.3%	\$30	0.4%
Administration	\$770	8.7%	\$758	8.7%	\$624	7.6%
Fiscal Services	\$165	1.9%	\$171	2.0%	\$177	2.2%
Business Services	\$0	0.0%	\$0	0.0%	\$39	0.5%
Plant Operation & Maintenance	\$823	9.3%	\$832	9.6%	\$875	10.6%
Pupil Transportation	\$557	6.3%	\$438	5.0%	\$465	5.7%
Central Support Services	\$193	2.2%	\$205	2.4%	\$84	1.0%
Non-Instructional Services Expenditures	\$65	0.7%	\$55	0.6%	\$57	0.7%
Extracurricular Activities Expenditures	\$192	2.2%	\$210	2.4%	\$256	3.1%
Total Governmental Fund Operational Expenditures	\$8,822	100.0%	\$8,704	100.0%	\$8,240	100.0%
Facilities Acquisition and Construction	\$5,521	36.7%	\$1,407	13.1%	\$604	5.3%
Debt Service Expenditures	\$689	4.6%	\$667	6.2%	\$828	8.2%
Total Governmental Funds Expenditures	\$15,032	100%	\$10,778	100%	\$9,672	100%

Source: Districts 4502 Exhibit 2

As shown in **Table 2-3**, NLSD's total Governmental Fund operational expenditures per pupil exceeded the peer average in FY 2006-07 by 5.6 percent, while total Governmental Fund expenditures were 11.4 percent higher than the peer average. The higher difference in total Governmental Fund expenditures is due to the higher costs in "Facilities Acquisition and Construction," which is related to the Ohio Schools Facility Commission project. The following items further explain the higher expenditures:

- *Regular and Special Instruction-* The District spent \$416 and \$259 more per student than the peer average on regular and special instruction, respectively. While this is due to higher average salaries for regular and special education teachers, the District's overall average salary for educational staff in FY 2006-07 is lower than the peer average. In addition, the District employs more special education FTEs per 1,000 students, which contributes to the higher special instruction costs per student. See the **human resources** section for additional discussion of salary and staffing levels.
- *Administration-* The District spent \$134 more per student than the peer average on administration in FY 2006-07. This is partially due to maintaining higher average salaries for administrators. However, NLS D's average administrator salary declined in FY 2007-08, resulting in a lower average salary for administrators in FY 2007-08 when compared to the peer average in FY 2006-07. While the average salary decreased in FY 2007-08, the District employs more administrator FTEs per 1,000 students in FY 2007-08 when compared to the peer average in FY 2006-07. See **human resources** for more information.
- *Central Support Services-* The District spent \$121 more per student than the peer average on central support services. The majority of expenditures (54.6 percent) in this line-item are attributable to the District's data center. This includes costs for salaries, benefits, purchased services, and supplies/materials. Approximately 79 percent of the central support service expenditures were from the General Fund in FY 2006-07. See *Issues for Further Study*.
- *Facilities Acquisition and Construction-* The District spent \$803 more per student than the peer average in this category. This is due to the Ohio Schools Facility Commission project.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The District's discretionary spending levels qualify as a noteworthy accomplishment. Specifically, the District's discretionary spending per student was \$851 in FY 2005-06, which decreased to \$762 per student in FY 2006-07. By comparison, the peer average was \$878 per student in FY 2006-07. The difference per student in FY 2006-07 equates to the District spending approximately \$266,000 less on discretionary items than the peer average. This indicates that the District is limiting discretionary spending.

Assessments Not Yielding Recommendations

In addition to the analyses in this report, assessments conducted on areas within the **financial systems** section which did not warrant changes and did not yield recommendations include the following:

- **State Funding Projections:** Based on the SF-3 for FY 2007-08, actual revenues in FYs 2005-06 and 2006-07, current per pupil funding levels, and the District trends in formula ADM, the Treasurer's projections for state funding appear reasonable.
- **Alternative Funding Sources:** The District works with a variety of organizations, such as parent teacher organizations and athletic boosters, to encourage stakeholder participation and obtain alternative funding for student activities.

Issue for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that are not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. AOS has identified central support service expenditures as an issue for further study. Specifically, the District should consider reviewing the operations comprising central support services to determine potential strategies of reducing costs to be more in line with the peer average (see **Table 2-3**).

Recommendations

Strategic and Financial Planning

R2.1 NLSD should expand its existing financial policies to address stabilization funds, fees and charges, one-time revenues, debt issuance and management including debt level and capacity, unpredictable revenues, revenue diversification, and contingency planning. Addressing such areas would aide the decision-making process.

Despite having some comprehensive policies for financial management, the District lacks the following policies recommended by *Best Practices in Public Budgeting* (GFOA, 2000):

- Stabilization funds;
- Fees and charges;
- One-time revenues;
- Debt issuance and management;
- Debt level and capacity;
- Unpredictable revenues; and
- Contingency planning.

By not having policies that address these areas, the District increases the risk of making decisions that do not align with the Board's intent and/or that result in adverse consequences.

R2.2 The District should develop a comprehensive strategic plan which outlines its vision for all operational and educational programs. In preparing the plan, the District should include measurable goals, objectives, timeframes, performance measures, and cost estimates (where applicable). In addition, NLSD should link the strategic plan to the budget and the five-year forecast. This would shift the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs and outcomes, and ultimately to the accomplishment of the goals and objectives in the strategic plan.

The District does not have a comprehensive strategic plan to guide long-term decision making. The article *Recommended Practice on the Establishment of Strategic Plans* (GFOA, 2005) recommends that all governments develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between spending and goals. The focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In developing the strategic plan, GFOA recommends the development

of measurable objectives and inclusion of performance measures. Objectives should express quantities or at least as verifiable statements, and should ideally include timeframes. Performance measures provide information on whether goals and objectives are met, and provide an important link between the goals in the strategic plan and the activities funded in the budget.

Without a comprehensive strategic plan, the District increases the risk of not identifying and addressing critical needs.

Financial Forecast

R2.3 The Board should update its policy to identify the process used in developing the financial forecast including supporting documentation for key assumptions, and define the involvement of other District administrators, besides the Treasurer. In addition, the Treasurer should include more detail in the assumptions accompanying the forecast. Doing so would help the Board and public better understand the underlying elements of the District's projected financial condition, including the Treasurer's methodology and assumptions.

NLSD has a Board policy that outlines the qualifications and job duties for the Treasurer, including the specific requirement that the Treasurer prepare a long-range financial projection of revenues and expenditures. Although the policy requires the development of a forecast, it does not specify the process to be used in preparing the forecast, the supporting materials to be used in developing significant assumptions, or the involvement of other District administrators. In actual practice, the District's development of the forecast is an ongoing and collaborative process throughout the year. Typically, the Treasurer and Board discuss the forecast in detail twice each year. These discussions occur at the monthly Board meetings near the May and October filing periods. The Treasurer provides the forecast and assumptions to the Board members approximately one week prior to the May and October Board meetings. The Treasurer allows each Board member to ask any questions in regards to the forecast and any issues are resolved before the Board approves the forecast. In addition, the Treasurer has daily conversations with the Superintendent as well as frequent communication with building principals and administrators. The Treasurer stated that these discussions provide an added element of guidance and are significant in shaping the development of the forecast.

The Treasurer prepares the forecast based on trend analysis, knowledge of current legislative developments, as well as the impact of the most recent property valuation. Although the Treasurer includes assumptions in the forecast document, the notes to the forecast generally do not provide adequate disclosure concerning issues that have a significant impact on the District. For example, the notes lack any kind of disclosure concerning the following:

- Historical and projected inflation rates;
- Historical and projected enrollment;
- Historical and projected number of open enrollment students and funding levels;
- Historical and projected staffing levels; and
- Historical and projected negotiated wage increases and salary schedule step increases.

According to the *Guide for Prospective Financial Information* (American Institute of Certified Public Accountants (AICPA), 2006), financial forecasts may be prepared as the output of a formal system. A formal system consists of a set of related policies, procedures, methods, and practices that are used to prepare financial forecasts, monitor attained results relative to the forecasts, and prepare revisions to, or otherwise update, the forecasts. Financial forecasts may also be prepared via a formal work program. If such a program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. This publication identifies numerous guidelines for preparing and reviewing financial forecasts, including the following:

- Key factors should be identified as a basis for assumptions. Assumptions used in preparing financial forecasts should be appropriate, reasonable, and well-supported.
- The process used to develop financial forecasts should provide adequate documentation of the financial forecasts and the process used to develop them. Documentation involves recording the underlying assumptions and summarizing the supporting evidence for the assumptions.
- The process used to prepare financial forecasts should include adequate review and approval by the responsible party at the appropriate levels of authority.

Although the Treasurer was able to verbally explain and confirm the basis for the projections, not fully disclosing the supporting reasons in the assumptions prevents readers from fully understanding the District's forecast. It also hinders the ability of other stakeholders (e.g., the Board) to effectively review the forecast and ensure it reasonably reflects the District's future financial condition.

R2.4 The Treasurer should take measures to ensure the projected figures for real estate revenues are accurate. This would ensure that the District bases its decisions on accurate and reliable information.

The Treasurer projected real estate property taxes to increase 1.8 percent in FY 2007-08 and 1.0 percent each year thereafter. The Treasurer's projected FY 2007-08 increase of 1.8 was reasonable, since the actual increase, received during the latter portions of this

audit, was 2.3 percent. However, the projected increase of 1.0 percent annually from FY 2008-09 through FY 2011-12 does not account for the impact of the property update during the forecast period, which will impact FY 2009-10 collections. The last property update resulted in a 7.9 percent increase in property tax collections in FY 2003-04. The Treasurer's notes to the forecast state that real estate tax collections increase a minimum of 6 percent in the year of a valuation adjustment, yet the actual forecasted increase is 1.0 percent in FY 2009-10.

The average annual increase in property taxes from FY 2001-02 through FY 2006-07 was 3.7 percent, with revenues increasing each year. When excluding the increases in FY 2003-04 and FY 2006-07 that were impacted by property reappraisals/updates, the average annual increase was 1.3 percent. As a result, forecasting a 1.0 percent increase in non-update/reappraisal years appears reasonable. While the last update resulted in a 7.9 percent increase in FY 2003-04, the last reappraisal resulted in a 6.7 percent increase in FY 2006-07. As a result, forecasting a 6.0 percent also appears reasonable. Lastly, the Treasurer indicated that NLSD has not experienced significant housing or commercial growth in recent years and while there has been some discussions regarding future economic development, nothing has been finalized.

Based on the above, AOS will revise the real estate property tax line item below in **Table 2-4** to reflect a 6.0 percent increase in the FY 2009-10 and 1.0 percent the last two years of the forecast period.

Table 2-4: Impact of Forecast Adjustment

	FY 2009-10	FY 2010-11	FY 2011-12
NLSD Real Estate Tax Projections	\$6,315,125	\$6,378,276	\$6,442,059
AOS Revised Projection	\$6,627,755	\$6,694,032	\$6,760,973
Net Impact on Forecast	\$312,630	\$315,756	\$318,914

Source: NLSD October 2007 forecast and AOS spreadsheet analysis

R2.5 Since employee salaries and wages represent nearly 61 percent of the District's total expenditures, the Treasurer should consider plotting each employee based on the salary schedule for each year of the forecast rather than only completing it for part of the forecast period. Doing so would increase the reliability of the projected expenditures, which can be materially impacted by step and negotiated wage increases. Additionally, the Treasurer should update the projections if the certificated staff becomes eligible for the negotiated wage increases during the forecast period.

The personnel services line-item represents employee salaries and wages, including extended time, severance pay and supplemental contracts. The Treasurer projected personnel services to remain flat (0.1 percent increase) in FY 2007-08 and increase 3

percent thereafter to account for negotiated wage and salary schedule step increases. The flat growth rate in FY 2007-08 is mainly due to the certificated and administrative staff agreeing to a wage freeze as well as 11 teachers who accepted the District's early retirement options. In addition, the District did not replace six teachers who retired at the end of FY 2006-07.

The Treasurer projected the FY 2007-08 salaries by plotting out the salaries and wage increases for all employees. AOS analyzed a sample of employees and their progression along the salary schedule in FY 2007-08 and found that the Treasurer appropriately accounted for step increases for this year. Coupled with the year-to-date expenditures through February 2008, the Treasurer's projection for FY 2007-08 appears reasonable. The actual expenditures became available during the latter portion of this audit, which showed that salary expenditures totaled approximately \$10.93 million in FY 2007-08. The Treasurer's projection was 3.7 percent higher than the actual expenditures, resulting in a conservative projection for FY 2007-08.

Although the Treasurer did not plot each employee similarly to his practice in FY 2007-08, the projected annual increases of 3.0 percent from FY 2008-09 through FY 2011-12 appear reasonable, based on upcoming negotiated wage increases (NWI) to base salaries and a review of salary schedules. NLSD has negotiated a wage freeze for the certificated staff for FY 2007-08 through FY 2010-11, as well as a 3.5 percent NWI for classified staff through FY 2008-09. The classified collective bargaining agreement expires at the end of FY 2008-09 (June 30, 2009). Furthermore, the average annual step increase in the certificated salary schedules is 3.8 percent, while the average annual step increase for classified staff is 2.3 percent. The classified average annual step increase is based on a review of salary schedules for the custodial and bus driver classifications, which comprised 41 percent of the classified FTEs in FY 2007-08. Although the combined percentages for negotiated wage and step schedule increases (3.8 percent for certified and 5.8 percent for classified) are higher than the Treasurer's projection of a flat 3 percent growth rate, every staff member may not receive an annual step increase. For example, approximately 32 percent of the certificated staff will not be eligible for step increases during the forecast period. Based on the certificated salaries in FY 2006-07 and 32 percent of staff not receiving a step increase, an average step increase of 3.8 percent would increase the total certificated salaries by 2.6 percent. This is slightly under the Treasurer's projected increase of 3.0 percent. Certificated salaries comprised 79 percent of the total salaries in FY 2006-07.

While the Treasurer's projections appear reasonable, the wage freeze negotiated in the certificated contract through FY 2010-11 has contingencies where staff members can receive increases in pay based on the District generating higher than projected revenues in each given year. These revenues can be in the form of passed levy initiatives, increases property valuations, etc. The negotiated wage increases associated with these

contingencies (2.0 percent in FY 2008-09, 2.75 percent in FY 2009-10, and 2.75 percent in FY 2010-11) are lower than the 3.75 percent increases from FY 2004-05 to FY 2006-07.

R2.6 The Treasurer should ensure that there is sufficient documentation to support the projections in benefits and correct errors to ensure accuracy in the forecasted figures. Going forward, the Treasurer should consider developing separate assumptions and supporting documentation for the major components within the employee benefits line-item (i.e., health insurance). This could be aided by plotting employees according to their appropriate place on the salary schedule and including the applicable benefits (see R2.5).

The fringe benefits line-item consists of NLSD's contributions for employee retirement, health insurance, workers compensation and Medicare. In FY 2006-07, the District's health insurance costs represented approximately 43 percent of the total benefit expenditures. The Treasurer projected the District's employee benefits to equal approximately \$4.2 in FY 2007-08 and increase by 8 percent each year thereafter. The actual expenditures became available during the latter portion of this audit, which showed that actual benefit expenditures totaled approximately \$4.9 million in FY 2007-08. This is significantly higher than the Treasurer's projection. The Treasurer indicated that a fund mapping error, early retirement incentives, and unemployment costs inflated benefit costs in FY 2006-07 and FY 2007-08. Additionally, the Treasurer's strategy to possibly delay two months of insurance payments coupled with a rate holiday contributed in underestimating the FY 2007-08 benefits in the original forecast.

The assumptions to the forecast state that the District's medical insurance premiums are projected to increase 10 percent annually throughout the forecast. This appears reasonable because health care premium costs increased an average of 9.7 percent since 2004. However, it is difficult to determine how the Treasurer applied this 10 percent increase in the benefits line item due to the lack of supporting documentation for the projections after FY 2007-08. This, in turn, makes it difficult to determine whether the Treasurer's overall forecasted increase of 8 percent annually for total benefits is reasonable. Benefits increased an average of 12.0 percent from FY 2001-02 to FY 2006-07, which includes the abnormally high increase of 23.2 percent from FY 2005-06 to FY 2006-07. From FY 2003-04 to FY 2005-06, benefit expenditures increased an average of 7.7 percent per year. Despite the abovementioned difficulty in evaluating the projections, the trend from FY 2003-04 to FY 2005-06 shows that the Treasurer's assumption of 8 percent annual increases could be reasonable. Nevertheless, using one overall growth rate for benefits can, in general, increase the likelihood of the forecast being unreliable because health insurance is not directly linked to salaries, unlike other benefits (e.g., retirement and Medicare).

Without sufficient supporting documentation from the District, AOS revised the benefits line-item by using the actual benefit expenditures in FY 2007-08 and applying the Treasurer's eight percent forecasted increase for FY 2008-09 through FY 2011-12. **Table 2-5** provides the impact of these revisions.

Table 2-5: Impact of Benefit Adjustments¹

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
NLSD Benefit Projection	\$4,556,781	\$4,921,324	\$5,315,030	\$5,740,232
AOS Revised Projection	\$5,359,887	\$5,788,678	\$6,251,772	\$6,751,914
Net impact on forecast	(\$803,106)	(\$867,354)	(\$936,742)	(\$1,011,682)

Source: AOS Analysis

¹ The impact of actual revenues and expenditures in FY 2007-08 will be reflected in **Table 2-6**.

By applying the Treasurer's 8 percent increase based on actual expenditures in FY 2007-08, benefit costs are projected to comprise 52.9 percent of the salary costs in FY 2011-12. While actual benefit costs comprised 38.7 and 45.4 percent of salaries in FY 2006-07 and FY 2007-08, respectively, they only comprised 31.5 and 30.2 percent of salaries in FY 2004-05 and FY 2005-06, respectively. By reviewing the projected figures and maintaining supporting documentation, the Treasurer would ensure that the assumption and forecast methodology are reliable, and be able to explain significant deviations from historical trends.

Budgetary and Financial Management

R2.7 NLSD should adjust its current budget document in a manner that would enable all stakeholders to gain an understanding of the District's financial condition and related matters. In particular, the District should include key policies, plans, goals, and key issues in the budget document. This would help link the budget to the District's strategic plan (see R2.2). The document should also include a financial overview (obtained from the five-year forecast – see R2.3), a guide to operations, explanations on the basis of accounting, a budget summary, and key performance measures. Furthermore, the document should be made available to the public. Taking these measures would provide stakeholders with a clearer and more thorough understanding of the budget and its relationship to the strategic plan and five-year financial forecast.

The Treasurer indicated that the budget is based mainly on historical costs rather than performance or achievement of specified goals and objectives, as the District does not have a strategic plan (See **R2.2**). The Treasurer prepares a formal budget document which is presented to the Board in September to comply with the October deadline. The budget document contains several items, including levy information, real estate data such as valuation reports and the certificate of estimated resources from the county auditor,

and SF-3 report for the coming year. In addition, the Treasurer indicated that this information is presented only in this one meeting. Coupled with the lack of explanation in the budget document, this prevents the local community from understanding the District's financial situation and evaluating the use of their tax dollars.

Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1999) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include the following items that are currently absent in NLSD's budget document:

- **Description of key policies, plans and goals.** The identification of key programmatic and financial policies, plans, and goals assists stakeholders in determining the appropriateness of a government's direction and allows them to develop their own opinions as to whether programs and decisions conform to, or are likely to achieve, those policies, plans, and goals.
- **Identification of key issues.** The identification of key issues focuses attention on critical areas, improves the likelihood that an appropriate level of deliberation will occur regarding decisions, provides accountability to stakeholders, and promotes trust.
- **A financial overview of the short and long-term financial plan.** Stakeholders need to have the financial plan of the district clearly identified in order to make the best budgetary decisions. A financial overview typically consists of financial statements and accompanying narrative, charts and graphs. The overview should clearly describe the current and projected financial position, fund balances, financial activities and expectations for the budget period, and the expected implications for future periods.
- **A guide to operations.** This information provides a context for the allocation of resources in the budget, which helps to enable reasoned decision making about the use of resources. It also provides readers with a guide to the government's programs and the organizational structure in place to provide those programs and services.
- **Explanation of the budgetary basis of accounting.** Explaining the differences between the budgetary basis of accounting and the basis used in preparing the annual financial report helps stakeholders understand and interpret the numbers presented in each document, and helps to prevent errors during preparation or interpretation of the budget.

- **A budget summary.** A concise summary of the key issues, choices, and financial trends is needed to inform and direct the reader to the appropriate location for additional information, because most stakeholders do not want to take the time to read and understand all of the details in a budget.
- **Performance measures.** Performance measures, including efficiency and effectiveness measures, should be presented in the operating budget document, and should be available to stakeholders. Performance measures should be reported using actual data, where possible. At least some of these measures should document progress toward achievement of previously developed goals and objectives as defined by a strategic plan (see **R2.2**).

R2.8 The Board of Education should form an audit committee to oversee the financial audit and review the District’s internal control structure. This will help ensure that the District develops and adheres to a sound system of internal controls, and addresses audit citations.

The District has had several citations and management letter comments in the FY 2004-05 and FY 2005-06 financial audits. The District was cited in both years for failing to comply with ORC § 5705.41, which states that “no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose...” In addition, the District was cited in FY 2005-06 for failing to comply with ORC § 3314.46 which states that “contracts to build, repair, enlarge, improve, or demolish any school building, the cost of which will exceed twenty-five thousand dollars, except in cases of urgent necessity, or for the security and protection of school property must be competitively bid.”

The FY 2006-07 financial audit revealed that the above citations were corrected. However, the audit also cited the District for its computerized budgetary reports not agreeing with the District’s Amended Certificate of Resources. In addition, the District was cited by AOS for overpayment of salary to an employee dating back to 2002. The Treasurer provided a letter of response to AOS, which detailed the steps the District would take to address the citations from the financial audit. The action steps include reviewing existing District policies with administrators and other key personnel as well as posting initial estimated resources to the computerized budgetary system at the beginning of the fiscal year and subsequently posting any an all adjustments promptly as they occur. Furthermore, the overpayment issue was resolved by establishing a payroll deduction of the employee to systematically reimburse the District. Although it appears the District is taking action to address financial audit citations, establishing an audit committee may help improve the District’s financial reporting and internal control design.

GFOA indicates an audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. GFOA goes on to indicate that the governing body of every state and local government should establish an audit committee or its equivalent.

Purchasing

R2.9 The District should consider lowering the minimum requirement to obtain multiple price quotes and adopt a formal policy on cooperative purchasing. Doing so would provide the Board with more assurance that the District's goods and services are being purchased at a fair price and that objective decisions are being made regarding vendor selection.

NLSD has Board policies governing fiscal management which includes a specific section governing purchasing. Within the purchasing section are several other areas including policies governing petty cash accounts, bidding requirements, credit cards, and payment procedures. However, the District's purchasing policies are broad and only require competitive pricing in the following instances:

- The District will comply with State law regarding competitive bidding requirements (anything exceeding \$25,000 as noted in ORC § 3313.46); and
- The District will seek three quotes from vendors for all purchases exceeding \$25,000.

In contrast to the District's \$25,000 threshold, Akron Public Schools requires district employees to obtain three price quotes on anything costing more than \$6,000.

Although NLSD does not have any formal policies in regards to cooperative purchasing, the Treasurer indicated that the District is a member of two purchasing consortiums, which provide the District with janitorial supplies and school/office supplies.

R2.10 The District should take steps to cross-train employees in functions related to the Treasurer's office. This would help the District avoid potential difficulties should one or more of the employees leave the District or incur extended absences.

NLSD has three employees in the financial services unit who each handle their responsibilities independent of each other. The District does not have any employees in the financial services unit who are considered to be cross-trained to include duties outside of their job description. The Treasurer stated that although the employees are somewhat familiar with each other's positions, he could foresee difficulties in the District should one of these employees be absent for an extended period, especially in the area of payroll.

The Society of Human Resource Management (SHRM) indicates that cross-training increases employee knowledge and ability to perform different tasks by using current skills or learning new skills. Most organizations benefit from cross-training as it:

- Creates a more flexible and versatile workforce;
- Improves productivity;
- Prevents stagnation;
- Allows for effective succession planning;
- Increases retention and avoids recruiting costs; and
- Enables employees to understand organizational goals and objectives.

Financial Recovery Plan

R2.11 NLSD should analyze and use Table 2-6 to evaluate the effect of recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit and other appropriate actions to avoid the projected operating deficits. In addition, the Treasurer should update Table 2-6 on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. In particular, the Treasurer should ensure that there is sufficient documentation to support the projections in benefits and correct errors to ensure accuracy in the forecasted figures (see R2.6). Because benefit projections can have a material impact of the District's forecast, this would ensure that the Board uses reliable information in making decisions that would improve the District's financial condition. Lastly, NLSD should regularly discuss potential options for reducing costs and/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

Table 2-6 presents the revised projections discussed throughout this section of the audit report (see **R2.4** and **R2.6**), and the cumulative effect of the Board-approved reductions (see **human resources**) and performance audit recommendations (see respective report sections).

Table 2-6: Financial Recovery Plan (in 000s)

	Actual 2004-05	Actual 2005-06	Actual 2006-07	Forecast 2007-08	Forecast 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12
Real Estate Property Tax- <i>Revised</i>	\$5,661	\$5,700	\$6,083	\$6,191	\$6,253	\$6,628	\$6,694	\$6,761
Tangible Personal Property Tax	\$649	\$665	\$483	\$422	\$307	\$227	\$122	\$0
Unrestricted Grants-in-aid	\$8,509	\$8,799	\$9,018	\$9,191	\$9,237	\$9,421	\$9,610	\$9,802
Restricted Grants-in-aid	\$90	\$76	\$79	\$72	\$74	\$90	\$90	\$95
Property Tax Allocation	\$784	\$778	\$977	\$1,134	\$1,189	\$1,239	\$1,252	\$1,264 ¹
Other Revenues	\$527	\$592	\$719	\$720	\$728	\$547	\$553	\$558
Total Operating Revenues	\$16,220	\$16,610	\$17,359	\$17,730	\$17,786	\$18,153	\$18,320	\$18,480
Salaries & Wages	\$10,464	\$11,781	\$11,321	\$11,336	\$11,676	\$12,026	\$12,387	\$12,759
Fringe Benefits-Benefits- <i>Revised</i>	\$3,297	\$3,560	\$4,385	\$4,963	\$5,360	\$5,789	\$6,252	\$6,752
Purchased Services	\$1,754	\$1,921	\$1,742	\$1,675	\$1,792	\$1,882	\$1,976	\$2,074
Supplies, Materials & Textbooks	\$627	\$605	\$587	\$298	\$558	\$503	\$700	\$725
Capital Outlay	\$151	\$316	\$282	\$41	\$175	\$100	\$200	\$200
Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Expenditures	\$287	\$281	\$289	\$161	\$225	\$24	\$245	\$260
Total Operating Expenditures	\$16,580	\$18,464	\$18,606	\$18,473	\$19,785	\$20,324	\$21,760	\$22,770
Net Transfers/Advances	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Financing Sources	\$4	\$128	\$74	\$5	\$5	\$5	\$5	\$5
Net Financing	\$4	\$128	\$74	\$5	\$5	\$5	\$5	\$5
Result of Operations (Net)	(\$356)	(\$1,725)	(\$1,173)	(\$739)	(\$1,994)	(\$2,166)	(\$3,435)	(\$4,285)
Beginning Cash Balance	\$3,266	\$2,911	\$1,185	\$12	(\$873)	(\$2,867)	(\$5,033)	(\$8,469)
Ending Cash Balance	\$2,911	\$1,185	\$12	(\$873)²	(\$2,867)	(\$5,033)	(\$8,469)	(\$12,754)
Encumbrances	\$558	\$373	\$377	\$271 ²	\$350	\$350	\$350	\$350
Ending Fund Balance	\$2,352	\$812	(\$365)	(\$1,144)²	(\$3,217)	(\$5,383)	(\$8,819)	(\$13,104)
Cumulative Impact of Board Approved Reductions	\$0	\$0	\$0	\$0	\$1,246	\$2,720	\$4,238	\$5,802
Revised Ending Fund Balance	\$2,352	\$812	(\$365)	(\$1,144)²	(\$1,971)	(\$2,664)	(\$4,581)	(\$7,302)
Cumulative Impact of AOS Recommendations	N/A	N/A	N/A	N/A	\$876	\$1,787	\$2,734	\$3,720
Revised Ending Fund Balance	\$2,352	\$812	(\$365)	(\$1,144)²	(\$1,095)	(\$877)	(\$1,847)	(\$3,582)

Source: NLSD and AOS recommendations

Note: Totals may vary due to rounding. Additionally, AOS recommendations are increased each year based on the Treasurer's assumptions, AOS revised assumptions, or inflation.

¹ Based on HB 66, reimbursements related to the phase out of tangible personal property will begin to be phased out in FY 2011-12. As the Treasurer forecasted an increase in property tax allocation, this category appears overstated. Therefore, the Treasurer should ensure that the forecast appropriately accounts for the phase-out in reimbursements.

² The ending cash balance, encumbrances, and ending fund balance reflect the actuals for FY 2007-08, which became available during the course of this performance audit.

Table 2-6 shows that even when including the Board-approved actions, the District is projected to have deficit fund balances in each year, reaching approximately \$7.3 million in FY 2007-08. Likewise, when including the Board-approved actions and performance

audit recommendations, the District is still projected with deficit fund balances in each year. Therefore, NLSD will need to consider other options to avoid the projected fund deficits, including the issues for further study that were identified throughout this performance audit. It should be noted that the performance audit recommendations include potential reductions to State minimum standards for regular teacher and ESP staffing levels, which comprise approximately 80 percent of the annual savings related to the performance audit recommendations. NLSD placed a 12.8 mill emergency levy (10 years) on the ballot in November 2008, which would generate approximately \$3.4 million in additional revenues and eliminate the fund deficits beginning in FY 2009-10, after including the Board-approved reductions. However, voters did not approve this levy.

Finally, the forecast in **Table 2-6** will depend, in part, on the attainment of the District and AOS revised projections. Therefore, monitoring the attainment of the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. For example, the District's August 2008 forecast, which became available during the latter portion of this performance audit, projects deficit fund balances that are significantly lower than in **Table 2-6**. Specifically, the August 2008 forecasts projects deficit fund balances of approximately (\$461,000) in FY 2008-09, (\$301,000) in FY 2009-10, (\$780,000) in FY 2010-11, and (\$1,710,000) in FY 2011-12. The significantly lower deficit balances are due primarily to variances in the benefit projections. As discussed in **R2.6**, by reviewing the projected figures and maintaining supporting documentation, the Treasurer would ensure that the assumption and forecast methodology for the benefit projections are reliable.

Human Resources

This section of the performance audit focuses on the human resource functions of the NLSD (NLSD or the District). NLSD operations were evaluated against leading or recommended practices and industry standards from various sources, including the Kaiser Family Foundation Employee Health Benefits 2007 Annual Survey, the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), and the State Employment Relations Board (SERB). In addition, NLSD operations were compared to a peer average of ten school districts.¹

Organizational Structure

NLSD does not have a separate department dedicated to human resource functions. Instead, the District's Superintendent, Assistant Superintendent, Treasurer, two payroll clerks, and the Superintendent's Administrative Assistant complete the major human resource functions. These services include benefits administration, payroll, maintenance of the Education Management Information System (EMIS) and other management reports, contract negotiations, hiring, and firing.

The District's certificated personnel are covered under the collective bargaining agreement (CBA) between the Northwest Teachers' Association and the NLSD Board of Education. This CBA took effect June 30, 2007 and runs through June 29, 2011. The District's classified personnel (custodial, clerical, educational aides, etc) are covered under a bargaining unit contract between the Ohio Association of Public School Employees (OAPSE) Chapter #229 and NLSD Board of Education. This agreement took effect on July 1, 2004 and runs through June 30, 2008.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. NLSD's action to reduce staffing levels by 26.5 FTEs qualifies as a noteworthy accomplishment, especially in light of the District's financial condition (see **financial systems**). **Table 3-1** compares NLSD's full-time equivalent (FTE) employees per 1,000 average daily membership (ADM) to the peer average, before and after the staffing reductions.

¹ See the **executive summary** for a listing of the peer districts and an explanation of the selection methodology.

Table 3-1: Comparison of FTEs¹ per 1,000 ADM

Staffing Category	NLSD FY 2007-08	NLSD FY 2007-08 With Reductions	Peer Average FY 2006-07	FTE Differences: NLSD Reductions and Peer Average
Average Daily Membership ²	2,334.74	2,334.74	3,969.10	N/A
Administrators	6.42	6.00	5.10	0.90
Educational Staff	65.94	59.95	63.99	(4.04)
Professional Staff	1.52	1.52	1.90	(0.38)
Technical Staff	0.00	0.00	2.33	(2.33)
Office/Clerical Staff	6.96	6.53	12.19	(5.66)
Crafts & Trades Workers	0.00	0.00	1.68	(1.68)
Custodians/Groundskeepers	6.64	6.21	6.65	(0.44)
Bus Drivers	10.92	9.21	8.68	0.53
Food Service Workers	6.74	6.74	6.46	0.28
All Other Reported Personnel ³	11.22	8.87	4.56	4.31
Total FTEs	116.36	105.02	113.54	(8.53)

Source: EMIS data reported to ODE

¹ EMIS reporting instructions define the calculation of FTEs.

² Includes students receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.

³ The District's All Other Reported Personnel category includes monitors, attendants, and service workers /laborers.

Table 3-1 shows that NLSD overall employs fewer FTEs per 1,000 ADM when compared to the peer average, after including the Board approved reductions. Based on approved staffing reductions, the Treasurer indicated that the District would save approximately \$1.246 million. However, **Table 3-1** shows that the District still employs more administrators, food service workers and all other personnel per 1,000 ADM than the respective peer averages. See *Assessments Not Yielding Recommendations* and *Issues for Further Study* for additional discussion.

Assessments Not Yielding Recommendations

In addition to the analysis in this report, assessments were conducted on areas within the human resources section which did not warrant changes and did not yield recommendations. These areas include the following:

- **Administrator Staffing:** As shown in **Table 3-1**, the District employs 0.9 more administrator FTEs per 1,000 ADM. However, the District subsequently eliminated one administrator position. In addition, one of the administrators included in **Table 3-1** performs building maintenance activities, and was included as such in the assessment of facility staffing levels (see the **facilities** section). Furthermore, the District's student

population (2,335) is significantly lower than the peer average (3,969), which partially accounts for the variance in administrators per 1,000 students. For instance, the peers likely employ a superintendent and treasurer, similar to NLSD, regardless of the number of students. When excluding the eliminated administrator position, the administrator performing building maintenance, and Superintendent and Treasurer positions, NLSD employs 4.71 remaining administrator FTEs per 1,000 students. When excluding 2.0 administrator FTEs for each peer to account for the likely employment of a full-time superintendent and treasurer, the peers average 4.56 remaining administrator FTEs per 1,000 students. As a result, NLSD employs only 0.15 more remaining administrator FTEs per 1,000 students, which amounts to less than 1.0 FTE. Lastly, the District employs an administrator in charge of overseeing food service operations, with the related personnel costs charged to the Food Service Fund.

- **Compensation:** Based on a comparison of average salaries to the peer average, the District's salary schedules for teachers, clerical staff, and aides were reviewed. NLSD has lower starting, middle, and ending certificated salaries for both the bachelor and master's degree classification when compared to the average of three peers. These three peers were selected based on student enrollment and proximity to NLSD. Additionally, each of the peer districts has more total salary steps than NLSD. Specifically, NLSD has 16 steps while Lake LSD has 19 steps, North Canton CSD has 17 steps, and Wadsworth CSD has 21 steps. These additional salary steps allow each of the peer districts to provide certificated staff the opportunity to earn greater income at the end of the salary schedule. Likewise, NLSD has lower starting, middle, and ending salaries for secretaries and aides when compared to the three peer average.
- **Medical Insurance Costs:** NLSD spent \$691 less per FTE than the peer average in medical insurance expenditures for FY 2006-07. NLSD offers medical, prescription and dental insurance coverage to its employees through a membership with the Stark County School's Council of Government Consortium (SCSCOG).
- **Worker's Compensation Premiums:** According to a representative for the Ohio Bureau of Worker's Compensation (OBWC), NLSD's experience modifier for 2009 is 0.46 compared to 0.48 in 2008. Any entity with a rating below 1.0 is discounted and a rating above 1.0 is penalized. Based on its experience modifier, NLSD is controlling its worker's compensation costs.
- **Negotiated Agreement Provisions:** The District's certificated and classified contract provisions are comparable to relevant standards in most areas, with a few exceptions (see **R3.4**). For example, certified provisions that were comparable include:
 - Annual Sick Leave Accrual;
 - Retirement Incentive;

- Additional Contract Days;
- Maximum Class Size;
- Reduction in Force;
- Instructional Days;
- Evaluation Process;
- Sick Leave Incentive;
- Personal Leave Incentive;
- Personal Days; and
- Advance Notice of Personal Day Use.

Issue for Further Study

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

- **Special Education:** In FY 2006-07, the District spent \$7,466 in special instruction costs per special education student for all government funds, which was much higher than the peer average of \$6,802. Likewise, when including only General Fund expenditures, the District spent \$6,082 per special education student, compared to the peer average of \$5,465. The higher costs per student are due, in part, to the higher average salary for special education teachers. However, the higher average salaries appear to be due to longevity, rather than more generous salary schedules (see **Compensation** in *Assessments Not Yielding Recommendations* section). Furthermore, during the course of this audit, the District reduced the following special education related FTEs: 1.0 special education teacher FTE, 2.0 monitoring FTEs and 3.0 attendant FTEs. NLSD should continue to review its special education program to determine if further reductions are possible, taking into account any IEP requirements and other available resources in the surrounding area.
- **EMIS Reporting:** The District's EMIS data was found to be sufficiently reliable for analysis, but formal training on entering data into the EMIS database has not been consistently provided to all staff participating in the data entry process. The District's EMIS process is a collaborative process which involves the building secretaries, the payroll clerk, and the Superintendent's secretary who all enter EMIS data. The District's EMIS Coordinator is ultimately responsible for the accuracy of reporting. The NLSD should assess the experience of staff and identify training needs to account for changes in ODE reporting requirements and ensure accurate EMIS reporting.

- **Food Service Fund:** The District operated with higher expenditures than revenues in FY 2005-06 and FY 2006-07, thus causing the ending balance in the Food Service Fund to decline from approximately \$124,000 in FY 2004-05 to \$84,000 in FY 2005-06, and to only \$2,700 in FY 2006-07. In FY 2007-08, the District ended with a balance of approximately \$7,800. Further analysis of the foodservice operation found that staffing levels appear efficient based on meals per labor hour, meal participation rate are higher than the peer average, and lunch prices are similar to the average of five school districts in Stark County. However, the District spent an average of \$138 per student and \$1.34 per meal in supplies and materials in FY 2006-07, which is higher than the peer averages of \$128 and \$1.29, respectively. In FY 2006-07, supplies and materials comprised 48 percent of the total expenditures in the Food Service Fund. As a result, the District should further review purchasing practices for food service operations and other factors contributing to the higher supply and material expenditures, which may be aided by **R2.9** in the **financial systems** section. Doing so would help identify potential cost savings and, in turn, avoid the potential of the Food Service Fund requiring support from the General Fund in the future.

Recommendations

Staffing

- R3.1 NLSD should continually monitor student-to-teacher ratios and Educational Service Personnel (ESP) staffing ratios, and regularly evaluate the impact of potential staffing changes, both financially and educationally. If the District does not implement the performance audit recommendations and other strategies to reduce costs, it should consider further reducing regular education and ESP staffing levels. Even after the Board-approved reductions, the District could reduce its regular education and ESP teachers by up to 14 FTEs and still meet State minimum requirements. However, NLSD should weigh decisions to reduce teacher and ESP staffing levels against the impact the reductions may have on the quality of education.**

The District's ratios of total ADM per regular education teacher (23.4) and regular students per regular education teacher (20.2) are higher than the respective peer averages (19.6 and 22.1). Additionally, although the District employs more education service personnel (ESP) FTEs per 1,000 regular students (8.7) than the peer average (8.1), it employs 7.4 ESP FTEs per 1,000 ADM which is similar to the peer average of 7.3. However, the District employs more FTEs than required by State minimum standards. More specifically, NLSD is required by Ohio Administrative Code (OAC) § 3301-35-05 to maintain at least one FTE classroom teacher for every 25 regular education students on a district-wide basis. Based on the staffing levels after the Board-approved reductions of 10.0 regular teacher FTEs, the District could reduce an additional 9.0 regular education FTEs and still comply with State minimum requirements. Similarly, OAC § 3301-35-05(4) requires the District to employ a minimum of 5.0 ESP FTEs per 1,000 regular students. Based on the staffing levels after the Board-approved reductions of 2.0 ESP FTEs, the District could reduce an additional 5.4 ESP FTEs and still comply with State minimum requirements.

Financial Implication: If the District eliminated 9.0 regular education FTEs and 5.0 ESP FTEs, it would save approximately \$715,000 annually in salaries and benefits, based on the lower-salaried teachers and ESP staff.

- R3.2 NLSD should establish a staffing plan to address current and future staffing needs. Specifically, the District should consider establishing staffing allocations for both certificated and classified personnel based on objective workload measures for different staff classifications, which consider the impact of future enrollment. By developing a staffing plan, the District will better ensure that it meets State requirements, maintains adequate staffing to serve students, and makes appropriate**

changes based on its specific circumstances. Furthermore, the District will have a better means for forecasting personnel costs.

NLSD does not have a formal staffing plan. While the District does not have a formal method for allocating staff, it informally evaluates staffing levels by using enrollment projections, current enrollment, kindergarten sign-up sheets, and information gathered from local pre-schools. Personnel expenditures account for a significant portion of the District's total expenditures. The lack of a formal staffing plan could hinder the District's ability to establish efficient and effective staffing levels.

Staffing for certificated personnel is governed by OAC § 3301-35-05 for regular education students and OAC § 3301-51-09 for special needs students, which establishes minimum requirements for student to teacher ratios for each of these student types. The Tulsa Public Schools have established a staffing plan that outlines the allocation of regular and special education, administrative, other instructional, clerical, custodial, and food service staff. The instructional and administrative allocations are based on student enrollment or student caseload for special education. Custodial staffing levels are based on a calculation that considers the number of teachers, students, rooms, and the total area of the buildings. Food service allocations are based on minimum target meals per labor hour calculation established by the district. The staffing plan also outlines the procedures for developing the allocations in each area.

Benefits

R3.3 The District should negotiate to require all full-time employees receiving medical insurance benefits to contribute at least ten percent towards monthly premiums. This would make the District's employee contribution levels similar to the Ohio Education Association (OEA) averages, but still lower than the Kaiser and State Employee Relations Board (SERB) averages.

The District requires all full-time employees to contribute five percent of the monthly premium cost for vision, dental, medical, and prescription insurance coverage. Part-time employees contribute anywhere from 15 to 80 percent, depending on job classification, and the number of hours worked per day. By comparison, the Ohio Education Association (OEA) reported that the average employee contribution in the 2007-08 school year was 9.0 percent for single coverage and 10.0 percent for family coverage. Additionally, the 2007 Kaiser national survey reports that the average medical contribution rates were 16.0 percent for single coverage and 28.0 percent for family coverage. Likewise, the 2007 SERB Report showed a statewide average contribution rate of 12.3 percent for single coverage and 13.3 percent for family coverage, for employers that require employee contributions.

Financial Implication: The Board share of medical premium costs would be reduced by approximately \$121,000 per year if the current five percent employee's share of costs was increase to ten percent.

Negotiated Agreements

R3.4 NLSD should seek to renegotiate for a reduction in the maximum number of sick days that employees can accrue and the number of days paid out in severance upon retirement. This would decrease the District's long term liability associated with sick leave severance payments.

The NLSD Board of Education has negotiated more generous sick leave accrual and sick leave severance pay outs than required by the ORC. NLSD certificated and classified sick leave accrual provisions state the following:

- Certificated employees can accrue 310 days of sick leave with one day accumulated for each year of the current contract.
- Classified staff can accrue a maximum 309 sick leave days.

ORC §3319.14.1 states that school employees can accrue up to 120 workdays. More can be approved by the local board of education

NLSD certificated and classified sick leave severance payout at retirement provisions state the following:

- Certificated employees are paid a maximum of 56 days for sick leave severance pay at retirement.
- Classified employees are paid a maximum of 58.9 days of sick leave severance pay at retirement.

ORC §124.39 states that an individual can be paid in cash for one-fourth the value of any accrued unused sick leave up to 30 days, but indicates that entities can adopt policies that allow for more than 30 days. As a result of the higher Board approved sick leave policies, the District has an increased financial liability when compared to ORC minimums.

Financial Implication: The savings associated with a reduction in the severance payout for certificated staff can vary, depending on the amount of time served and classification of the retirees in a given year. However, if the District reduced the maximum severance payout to 30 days (26 days of savings); the savings would be approximately \$7,077 for every retiring teacher.

Financial Implications Summary

The following tables present a summary of estimated annual cost savings identified in this section of the report.

Recommendations

Recommendation	Annual Cost Savings
R3.1 Consider reducing regular teacher and ESP staffing levels to State minimum standards	\$715,000
R3.3 Subject to negotiations, require employee contributions for healthcare of at least 10 percent	\$121,000
Total	\$836,000

Source: AOS recommendations

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Facilities

Background

This section of the performance audit focuses on various aspects of facility operations in the Northwest Local School District (NLSD or the District). The objective is to analyze operations against peer school districts¹, and leading or recommended practices, and operational standards from applicable sources that include the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES) and the Government Finance Officers Association (GFOA).

Summary of Operations

NLSD currently operates five school buildings located on one campus: two elementary schools (grades K-2 in one, and grades 3-4 in the other), one intermediate school (grades 5-6), one middle school (grades 7-8), and one high school (grades 9-12). As a result of the District's fiscal condition and other factors, NLSD is working with the Ohio Schools Facility Commission (OSFC) to determine future building needs (see **R4.2**).

Northwest has a total of 16.25 full-time equivalents (FTEs) assigned to building and grounds maintenance. The custodial staff is responsible for cleaning buildings, maintaining heating, ventilation, and air conditioning (HVAC) equipment, and performing limited grounds work. The District contracts out for major repairs. The District's maintenance staff is responsible for a higher level of maintenance in the areas of electrical, plumbing, and HVAC. The groundskeeping staff is responsible for lawn maintenance, repair of lawn equipment, and snow and ice removal in the winter months.

Financial Data

The District's facility expenses are paid out of the General Fund and Permanent Improvement (PI) Fund. The District's five year PI renewal levy is from 2003 to 2008 and generates \$155,000 annually.

Table 4-1 compares NLSD's General Fund and Total Fund facility related expenditures per square foot to the peer average and to the AS&U national median for the 2006-07 school year.

¹ See the **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 4-1: Expenditures per Square Foot

Object Code	NLSD FY 2006-07	Peer Average FY 2006-07	AS&U National Median FY 2006-07
Salaries / Benefits	\$2.45	\$2.83	\$2.56
Purchased Services	\$0.68	\$0.79	\$0.01
Utilities	\$1.34	\$1.72	\$1.71
Materials and Supplies	\$0.29	\$0.33	\$0.32
Capital Outlay	\$0.23	\$0.05	N/A
Miscellaneous	\$0.00	\$0.02	\$0.49
Total General Fund	\$4.99	\$5.74	\$5.09
Total All Funds	\$5.45	\$6.23	\$5.09

Source: Northwest LSD, Peer Districts, and AS&U

Table 4-1 shows that NLSD's total General and All Fund expenditures per square foot in FY 2006-07 were approximately 15 and 28 percent lower than the peer averages, respectively. In addition, the District's expenditures per square foot were lower than the peer average in every category, except capital outlay. The higher capital outlay expenditures are due to the OSFC project. Likewise, the NLSD's expenditures per square foot are lower than the AS&U National Median in salaries and benefits, utilities, materials and supplies, and miscellaneous. Based on total fund expenditures through May 2008, the District is on pace to spend \$6.19 per square foot in FY 2007-08, which would still be lower than the peer average of \$6.23 in FY 2006-07.

Noteworthy Accomplishment

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. As shown in analysis of **Table 4-1**, the District's expenditures per square foot in FY 2006-07 were lower than the peer average and AS&U national median in most of the categories.

Assessments Not Yielding a Recommendation

In addition to the analyses presented in this section, the following assessments were conducted and did not warrant a change or recommendation:

- **Overtime:** The District's overtime expenditure as a percentage of salaries was 1.4 percent in FY 2006-07. Lower overtime is used sparingly and can be attributed to the strict approval process, according to the Supervisor of Buildings and Grounds.
- **Staffing:** Although NLSD maintains higher square footage per maintenance FTE and lower square footage per custodian FTE when compared to the relevant benchmarks, the

District's overall staffing levels for facility operations (custodian, maintenance and grounds) are consistent with industry benchmarks. Specifically, based on the District's square footage and acreage, and benchmarks from AS&U and NCES, NLSD should employ 16.5 FTEs. This is slightly more than the District's current staffing levels of 16.25 FTEs. Developing formal performance measures and standards would help ensure that NLSD allocates the appropriate staffing levels to the various aspects of facility operations (see **R4.3**).

Recommendations

R4.1 NLSD should establish a formal preventive maintenance (PM) program that addresses all routine, cyclical, and planned building maintenance functions. NLSD should also consider implementing an electronic work order system, which can help the District track preventive maintenance tasks and schedules, and related maintenance costs. Prior to the purchase, the District should ensure that the system has the ability to track the necessary information. The District should also provide training on the new work order system so that all functions are being used to the full extent possible. The implementation of a formal PM program and work order system could be aided by the OSFC.

NLSD does not have a formal preventive maintenance program. Instead, the District has an informal PM process whereby the maintenance staff is responsible for performing PM work, such as changing boiler filters, maintaining all electrical appliances and wiring, and various other activities. However, these PM activities are not being documented through the District's work order system. As a result, the District is not able to pull all maintenance and associated costs with a specific piece of equipment to determine if it is costing the District more to maintain than to replace. While the District has a work order process, it is not electronic and lacks tracking and reporting capabilities. To improve this situation, the Supervisor of Buildings and Grounds noted that as part of the master plan, OSFC will provide an electronic work order system and preventative maintenance schedule.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), "A good maintenance program is built on a foundation of PM. It begins with an audit of the buildings, grounds, and equipment." Once the items that should receive PM are identified, entities should determine the frequency and type of inspections. When developing a PM schedule, manufacturers' manuals are a good place to start. Ideally, the scheduling of PM tasks should be computerized. According to the *Planning Guide for Maintaining School Facilities* (NCES, February 2003), work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that the work order is completed, and track the cost of parts and labor. A work order system can be a manual, paper-based, tracking tool. However, more efficient work order systems come in the form of automated systems. Their purpose is to manage work requests as efficiently as possible and meet the basic information needs of a district. In terms of utility, the *Planning Guide* indicates that a good automated work order system will do the following:

- Acknowledge the receipt of a work order;

- 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).

The implementation of a formal PM program would help the District avoid emergency and costly repairs, and anticipate needed facility and equipment repairs and replacement. This, in turn, would help the District identify project financing sources before they are needed, helping to eliminate the affect of unforeseen costs on the District finances. Moreover, an automated work order system can help the District schedule and track maintenance tasks and related costs.

Financial Implication: The cost of an automated work order system could range in price depending on the number of features. One web-based system would cost Northwest LSD approximately \$3,200 for a three year subscription. However, this does not include the cost to provide a computer and training to maintenance personnel. Furthermore, the District may be able to avoid some of these costs depending upon whether OSFC provides an electronic work order system.

R4.2 The District should continue working with the OSFC in an effort to complete a long-term facilities master plan that addresses all capital improvement needs. This includes finding ways to obtain the funding needed for the OSFC to start implementing the plan.

NLSD does not have a comprehensive facility master plan that includes all capital replacement needs projected over a five year period. Instead, the District has an OSFC construction proposal of those buildings due to receive replacement, additions, or upgrades. NLSD is currently working with OSFC in an effort to complete a master plan for the District. The completed master plan will include historical enrollment, future enrollment projections, capacity analysis, condition of buildings, and capital improvement needs. In conjunction with the plan, the OSFC will complete major renovations on District school buildings. Additionally, negotiations are underway with the OSFC to determine the payments required to complete the District's renovations.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), a master plan is the "blueprint" for daily decision making throughout a school district. It provides concrete documentation about the organization's needs and intentions. Moreover, it is a formal way of communicating the District's priorities, and establishes

necessary documentation for funding authorities and other approving organizations. Good plans include short and long-term objectives, budgets, and timelines, all of which demonstrate organizational commitment to facilities maintenance. Effective planning also requires that planners evaluate both the organization's overarching goals and the day-to-day details needed to meet those targets. Thus, a comprehensive plan serves both as a blueprint for the here and now, and a roadmap to the future.

R4.3 NLSD should develop and implement a formal procedures manual for the facility staff. Once the manual is complete, the manual should be reviewed and updated as needed. The date of each update should be included in the manual to help users ensure that they have the most current resource. In addition, the District should develop job descriptions for all facility positions, and ensure job descriptions are up-to-date and contain sufficient detail. Furthermore, NLSD should develop and implement formal standards that will be used to evaluate facility operations and staff performance, and communicate job expectations. The District should periodically review these benchmarks against industry standards, peers, and historical data to make informed and objective decisions regarding staffing and facility operations.

The Supervisor of Buildings and Grounds indicated that a formal policy and procedures manual has not been developed for District custodial, maintenance or grounds employees. Instead, according to the Supervisor of Buildings and Grounds, employees receive job descriptions and their work area is formally defined. However, the District does not have job descriptions for maintenance or grounds staff. Any changes occurring in the District's facilities department are passed along informally to employees through the Supervisor of Buildings and Grounds and building principals.

The District does not formally benchmark its staffing levels and facility operations to relevant standards or other school districts. Likewise, the District lacks formal performance standards for employees, and does not track and report measures such as cost per square foot, the number of square feet cleaned and maintained per FTE, and acres maintained per FTE. However, according to the Supervisor of Buildings and Grounds, the District informally checks utility costs by researching private utility companies for competitive pricing. As shown in **Table 4-1**, the District's utility costs per square foot are much lower than the peer average and AS&U National Median. Also, according to the Supervisor of Buildings and Grounds, the District communicates with other school district maintenance supervisors in Stark County to exchange effective facility control methods.

The *Custodial Methods and Procedures Manual* (OASBO, 2000) states that a 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 International Sanitary Supply Association (ISSA) has developed a training program manual designed to help train custodians. The program details the correct cleaning methods, as well as the proper use of custodial equipment. This manual details procedures, guidelines, and pointers on the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;
- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;
- Scrubbing/stripping;
- Spray buffing/ high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

The Planning Guide for Maintaining School Facilities (Planning Guide) (NCES, 2003) recommends that to assess staff productivity, organizations must establish performance standards and evaluation criteria (e.g., amount of floor space cleaned and facility cleanliness). *The Planning Guide* provides managers with the following guidelines for developing performance standards:

- Establish goals;
- Create an evaluation instrument (e.g., a checklist);
- Be as detailed and specific as possible;
- Define the performance scale (e.g., 0 = poor to 5 = excellent);
- Be flexible (i.e., acknowledge extraordinary circumstances when they arise);
- Convey expectations to affected staff people; and
- Review the performance standards on a regular basis (e.g., annually).

The Planning Guide also suggests when evaluating facilities, districts must collect and maintain accurate, timely, and comprehensive data. Good decision making requires good data and documentation. Collecting the data requires effort, but it is a necessary task. According to *the Planning Guide*, such data could include: annual snapshots (e.g., cost per square foot or per student), the number of work orders completed, customer feedback,

benchmark performance, comparisons with peers, and trend analysis. Lastly, the Government Finance Officers Association (GFOA) recommends the use of performance measures (i.e., input, output, effectiveness/outcome, and efficiency measures) to evaluate the performance of programs and services.

Without formal procedures and benchmarks, NLSD increases the risk of staff inconsistently, inefficiently, and/or ineffectively performing job functions. In addition, the District does not have the means to easily communicate expectations and objectively assess performance. This, in turn, increases the risk of making uninformed decisions.

Financial Implications Summary

The following table lists annual costs for recommendations contained in this section of the report.

Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Costs
R4.1 Consider purchasing a work order system.	\$3,200 ¹
Total	\$3,200

Source: AOS Recommendations

¹ While this would be the cost for a three year subscription for a particular system, the total amount is used as the annual cost to be conservative, and account for potential training and future updates.

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Transportation

Background

This section of the performance audit focuses on Northwest Local School District's (NLSD or the District) transportation operations. For benchmarking purposes, NLSD transportation operations are compared to a peer average consisting of ten school districts¹. The District's operations are also evaluated against recommended practices and operational standards from applicable sources, including the American Association of School Administrators (AASA).

Ohio Revised Code (ORC § 3327.01) states that at a minimum, school districts are required to provide transportation to resident pupils in kindergarten through eighth grade who live more than two miles from school. Furthermore, Ohio Administrative Code (OAC § 3301-83-13) states that students may be required to walk up to one-half mile to a designated bus stop, and designated school bus stop locations shall provide for student safety as defined by OAC § 3301-83-20. The District's transportation practice has been to provide door-to-door service for all students (see **R5.1** for further assessment on the District's transportation practices).

Operational Statistics and Cost Ratios

NLSD operated with 26 active buses and 3 spare buses to transport 1,696 riders per day in FY 2006-07 and 1,743 riders per day with 25 active buses and 4 spares in FY 2007-08. The District's Transportation Supervisor has a number of duties that include overseeing bus driver assignments, and ensuring appropriate staffing of all District transportation services.

Table 5-1 compares key District statistics and operating ratios to the peer average.

¹ See the **executive summary** for a list of the peer districts and an explanation of the selection methodology

Table 5-1: Key Statistics and Operating Ratios

Key Statistics	NLSD FY 2006-07	Peer Average FY 2006 -07	% Difference vs. Peers
Square Miles	32.4	33.9	(4.6%)
ODE Enrollment	2,514	4,206.1	(40.2%)
Total Students Transported (All Types)	1,696	2,922	(41.9%)
Total Yellow Bus Riders (Type I)	1,659	2,878	(42.3%)
Active Buses	26	38.6	(32.6%)
Spare Buses	3	6.3	(52.4%)
Spare Bus % of Total Fleet	11.5%	14.3%	(2.8%)
Annual Routine Miles	282,780	418,014.0	(32.4%)
Annual Non-routine Miles	29,040	39,763.4 ¹	(27.0%)
Total Miles	311,820	457,777	(31.9%)
Enrollment per Square Mile	77.5	142.0	(45.4%)
Daily Miles per Rider	0.9	0.8	12.0%
Riders Per Square Mile	51.1	94.7	(46.0%)
Riders per Active Bus	63.8	76.6	(16.8%)

Source: District and peer T-forms.

Note: Totals may vary due to rounding.

¹ Peer average excludes the one district reporting only 1,980 non-routine miles.

Table 5-1 shows that the District averaged 63.8 riders per bus in FY 2006-07, which is 16.8 lower than the peer average. The District eliminated one active bus in FY 2007-08, which contributed to the increase in the number of riders per bus to 67.6 in FY 2007-08. However, this is still lower than the peer average. While the District's lower population density, as measured by enrollment per square mile and riders per square mile, can partially contribute to the lower number of riders per bus, the District can implement various strategies to increase the number of riders per bus and overall efficiency (see **R5.1**).

Table 5-2 compares the District's transportation cost ratios in FY 2006-07 to the peer average, for Type I expenditures and riders (Board-owned and operated school buses).

Table 5-2: Transportation Cost Ratios - Comparison

	NLSD FY 2006-07	Peer Average FY 2006-07	Percent Difference vs. Peers
Total Expenditures			
• Per Rider	\$618	\$555	11.4%
• Per Active Bus	\$39,419	\$41,884	(5.9%)
• Per Routine Mile	\$3.62	\$3.95	(8.4%)
Salaries			
• Per Rider	\$320	\$274	16.8%
• Per Active Bus	\$20,430	\$20,761	(1.6%)
• Per Routine Mile	\$1.88	\$1.96	(4.1%)
Benefits			
• Per Rider	\$129	\$109	18.3%
• Per Active Bus	\$8,249	\$8,265	(0.2%)
• Per Routine Mile	\$0.76	\$0.77	(1.3%)
Maintenance & Repairs ¹			
• Per Rider	\$82	\$80	2.5%
• Per Active Bus	\$5,222	\$6,087	(14.2%)
• Per Routine Mile	\$0.48	\$0.57	(15.8%)
Fuel			
• Per Rider	\$60	\$57	5.3%
• Per Active Bus	\$3,828	\$4,296	(10.9%)
• Per Routine Mile	\$0.35	\$0.40	(12.5%)
Bus Insurance			
• Per Rider	\$17	\$12 ²	41.7%
• Per Active Bus	\$1,115	\$845 ²	32.0%
• Per Routine Mile	\$0.10	\$0.08 ²	25.0%
All Other Costs			
• Per Rider	\$9	\$25	(64.0%)
• Per Active Bus	\$576	\$1,713	(66.4%)
• Per Routine Mile	\$0.05	\$0.16	(68.8%)

Source: District and peer T-forms.

Note: Totals may vary due to rounding.

¹ Includes mechanic and mechanic helper salaries.

² Peer average excludes the one district reporting only \$852 in total bus insurance expenditures.

As shown in **Table 5-2**, the District's expenditures per routine mile and per active bus were lower in each category, with the exception of insurance. NLSD's bus insurance is contracted through the County ESC consortium, but the District could not provide any support as to why its rates are higher (see *Issues for Further Study*). In contrast to the expenditure per mile and per active bus comparisons, **Table 5-2** shows that the District's total cost per rider was 11.4 percent higher than the peer average. This is primarily due to the higher salary and benefit costs per

rider, which is attributable to transporting fewer riders per bus than the peer average (see **Table 5-1** and **R5.1**).

Assessments Not Yielding Recommendations

In addition to the analyses in this report, AOS conducted assessments on areas that did not warrant changes and did not yield recommendations. These areas include the following:

- **Non-Routine Trips:** NLSD has a comprehensive non-routine trip process for requesting, approving, and scheduling non-routine trips. In addition, NLSD charges departments or schools within the District for the non-routine use of its school buses in accordance with the Ohio Administrative Code (OAC) § 3301-83-16. According to supporting documentation provided by the Treasurer's staff, the District prepares a field trip cost estimate once a non-routine trip is approved, detailing the number of buses needed, total length of time needed, and total mileage.
- **T-Form Data Tracking and Reporting:** The data reliability tests completed as a part of the performance audit revealed no significant discrepancy in ridership, mileage and expenditure data.

Issue for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that AOS did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have time or resources to pursue. AOS has identified bus insurance as an issue for further study. In FY 2006-07, the District spent approximately \$1,000 per bus (including spares) for insurance, compared to the nine district peer average of \$719. Additionally, the District does not seek competitive pricing for bus insurance. As a result, the District should research competitive pricing for bus insurance coverage and other strategies to help reduce bus insurance costs.

Recommendation

Operational Efficiency

R5.1 NLSD should use its routing software to develop various run scenarios that would help identify changes to improve bus utilization and overall efficiency. In particular, the District should use the routing software to identify potential methods of route consolidation and cluster stops in areas that will not jeopardize the safety of its students. Likewise, the District should use the routing software to review the potential of increasing runs per bus. This review should ensure that such a decision would be cost-effective, consider student ride times, and ensure the adjusted pick up and drop off times are appropriate. Even with the Board's recent elimination of high school transportation services and the corresponding reductions in bus driver hours, the above strategies should enable the District to eliminate at least three active buses. When determining which buses to eliminate, the District should analyze the maintenance cost of each bus and eliminate the buses with the highest maintenance costs.

The District provides transportation to all students who live more than one mile from school and request transportation service. This exceeds the Ohio Revised Code (ORC) § 3327.01 minimum requirements of transporting students in kindergarten through eighth grade who live more than two miles from the school.

The District operates a two-tier transportation system. Based on the total number of runs for the District's 22 regular needs buses in FY 2007-08, the District averaged 38.5 riders per active regular bus, per run. Taking into consideration that all of the District's active buses have a manufacturer seating capacity of 71, the District only utilized an average of 54.2 percent of its available seat capacity for regular bus runs in FY 2007-08. By comparison, according to the article, "*Hidden Savings in Your Bus Budget*" (American Association of School Administrators (AASA), 2005)², "effective pupil-to-bus ratio should average at least 100 pupils on a double-route, two-tier bus system. Actual capacity use must be measured with 80 percent of rated capacity as a goal." Moreover, NLSD transported fewer riders per bus when compared to the peer average (see **Table 5-1**), thereby contributing to the higher transportation costs per rider (see **Table 5-2**).

NLSD's lower riders per bus and bus utilization rate can be attributed, in part, to its system of developing routes. More specifically, the District has maintained the same routes for several years, with minor exceptions. The District uses routing software, but indicated that it likely does not use all of the features of the routing software that can

² A private school transportation firm that conducts audits for more than 30 school districts including New York City and Kansas City, MO authored this article.

maximize capacity to explore different run scenarios. This is because transportation staff feels that many of the features are geared toward large school districts. In addition, the District does not use cluster stops. During the course of the performance audit, transportation staff indicated that NLSD could implement cluster stops, which is a feature available in the routing software. Lastly, the District's bell schedules inhibit NLSD from increasing the number of runs per bus, which may enable NLSD to operate with fewer buses. The starting times for the middle and high schools are 7:25 am / 7:30 am while the two elementary and one intermediate schools start less than one hour later at 8:20 am.

The Brownsville Independent School District Management and Performance Review (Texas Comptroller of Public Accounts, February 2003) indicates that the use of staggered bell times at each school level allows buses to operate on a three tier-system. Staggered bell times reduce vehicle and driver requirements and maximize resources often reducing the time students spend on a bus ride and preventing mixing students of different ages. A district can also have a cluster stop policy for regular student riders to provide more efficient bus trips. Students are picked up in groups at designated stops located throughout the communities. BISD chose cluster locations to decrease the number of stops made by each bus while ensuring that no student had to walk too far to be picked up. Each cluster stop was designed to optimize the balance between distance for students to walk and miles for buses.

If the District achieved the peer average number of riders per active bus, it could eliminate three active buses, based on the riders and buses in FY 2007-08. By comparison, if the District achieved an average utilization rate of 80 percent, it could eliminate seven regular active buses. However, during this audit, the Board approved the suspension of transportation services to high school students, effective FY 2008-09. This will lead to a reduction of a minimum of 250 riders in grades 9-11 (number of 12th grade riders was not available), according to the Transportation Supervisor. The District plans to reduce the number of buses in the first run from 22 to 11 buses transporting only middle school students. The District plans to leave the second run unchanged at 22 buses transporting K-6 students. Furthermore, the District approved the reduction in the number of daily hours for seven bus drivers from 4.5 hours to 2.5 hours.

When excluding 250 riders and considering NLSD's run plans, the District would increase its capacity utilization rate to 60 percent, which is still well under 80 percent. To come closer to an 80 percent utilization rate, the District would need to eliminate five active regular buses. Furthermore, assuming NLSD would still maintain three special needs buses, it would still be operating with a total of 25 active buses. As a result, the District would only average 57.6 riders per bus. To achieve the peer average of 76.6 riders per bus, the District would need to eliminate six active buses. Therefore, the District can still improve efficiency and eliminate buses even with the recent elimination of high school transportation services.

Financial Implication: Based on the bus drivers identified by the District that would be eliminated by this recommendation, it would save approximately \$40,100 annually in salaries and benefits by eliminating three active buses. The District would also save approximately \$3,000 annually in bus insurance costs, based on the insurance cost per bus. Furthermore, the District may be able to realize additional cost savings related to fuel, repair, and maintenance costs, if the above-mentioned strategies reduce the number of total miles driven each year.

Financial Implications Summary

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

Summary of Financial Implications for Transportation Section

Recommendation	Annual Cost Savings
R5.1 Eliminate at least three active buses (savings in salaries and benefits)	\$40,100
R5.1 Eliminate at least three active buses (savings in bus insurance costs)	\$3,000
Total	\$43,100

Source: AOS recommendations

District Response

The letter that follows is Northwest Local School District's 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 District officials disagreed with information contained in the report and provided supporting documentation, the audit report was revised.



NORTHWEST

On The Warpath to Excellence!

William D. Stetler
Superintendent of Schools

Dan Levensgood
Treasurer

November 19, 2008


Auditor of State
Mary Taylor
Lausche Building, 12th Floor
615 West Superior Avenue
Cleveland, Ohio 44113

Dear Auditor Taylor:

The Northwest Local School District and Board of Education has received the results from the recent Performance Audit conducted by your office. We would like to commend Dawn Bendel, Cooper Martin and the rest of the audit team for their professionalism and thoroughness during the engagement. The recommendations and issues for further study provide a valuable resource for Northwest Local to use in our endeavor to become efficient and effective. Some of the recommendations that were discussed before the audit was completed have already been implemented.

Thank you for the help and assistance provided by your staff. Northwest Local Schools will benefit greatly from the Performance Audit.

Respectfully,


William D. Stetler
Superintendent


Dan Levensgood
Treasurer

NORTHWEST LOCAL SCHOOL DISTRICT

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