



Mary Taylor, CPA  
Auditor of State

BELLAIRE LOCAL SCHOOL DISTRICT  
PERFORMANCE AUDIT

AUGUST 13, 2009



# Mary Taylor, CPA

Auditor of State

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

Based on Bellaire Local School District's (Bellaire LSD) October 2008 financial forecast, a performance audit was initiated beginning in January 2009. On April 24, 2009, Bellaire Local School District (Bellaire LSD) was placed in fiscal caution by the Ohio Department of Education due to the possibility of ending the 2009 and future fiscal years with deficits. The five functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations, which support its mission of educating children, and because improvements in these areas can assist in eliminating the conditions that brought about the declaration of fiscal caution.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of Bellaire LSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

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

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

Sincerely,

A handwritten signature in black ink that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

August 13, 2009





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# Executive Summary

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## Project History

In accordance with House Bill (HB) 119, the Auditor of State's Office (AOS) conducted a performance audit of the Bellaire Local School District (BLSD or the District) to identify programs or areas of operation in which it believes greater operational efficiency, effectiveness, or accountability may be achieved. In December 2008, AOS initiated a performance audit based on the District's October 2008 five-year financial forecast, which showed a negative fund balance in FY 2008-09, projected to grow to just under \$1 million by FY 2012-13.

During the course of the audit, BLSD updated its forecast to ODE May 2009, which showed an increase in financial deficit to \$9.8 million at the end of forecast period FY 2012-2013. Furthermore, the State passed House Bill 1 on July 17, 2009 that will have a future impact on school district operations (see *Subsequent Events*).

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

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

Audit work concluded in April 2009. The goal of the performance audit process was to assist the BLSD administration and Board of Education in identifying opportunities for cost savings and improving management practices. The ensuing recommendations provide options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

## District Overview

BLSD is located in Belmont County and, in FY 2008-09, provided educational services to 1,361 preschool through grade twelve students. For FY 2007-08, the Ohio Department of Education (ODE) reported that the District received 20.4 percent of its revenue from local, 65.3 percent from State, and 14.3 percent from federal sources. Approximately 60 percent of the District's students are economically disadvantaged and 25 percent are identified as students with disabilities. BLSD is aggressive in pursuing State and federal grants as sources of added revenue.

In FY 2007-08, ODE reported that the District's expenditures per pupil were \$10,653, compared with the Statewide average of \$9,939. The District met 16 of 30 academic performance indicators established by ODE in FY 2007-08 and was categorized as an *effective* district.

In FY 2008-09, the District employed approximately 218.5 full-time equivalent (FTE) staff, consisting of 11.3 FTE administrators, 132.9 FTE educational personnel, 1.0 FTE professional/technical personnel, 11.0 FTE office/clerical staff, and 62.3 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2008-09 was 15.3 to 1. District employees are covered under two bargaining agreements: one for certificated staff and one for classified staff.

BLSD has experienced a decline in student enrollment over the past several years, with total enrollment in FY 2008-09 down about 6 percent from FY 2005-06. The District operates three school buildings: one elementary school (grades K-4), one middle school (grades 5-8), and one high school (grades 9-12). The elementary and middle school buildings were completed in 2001 through an OSFC project, and the high school was renovated in 2003.

The economic climate in the region has had an impact on BLSD. According to the U.S. Census Bureau, Belmont County's population declined approximately 3 percent from 2000 to 2007, despite an overall population increase of 1 percent in the State of Ohio. Furthermore, the poverty rate was 15 percent in 2007, compared with the State average of 13 percent. Despite these economic conditions, the residents of BLSD have historically supported the schools through additional property tax levies, which has allowed the District to offer additional programs and construct new buildings.

However, recent fiscal conditions challenge BLSD's ability to remain solvent. In order to address its significant projected financial deficits, BLSD administrators and Board members will have to make difficult decisions regarding District operations. Some of the recommendations in this performance audit are subject to negotiations, but represent opportunities for significant cost savings. Additional savings not identified by this performance audit would provide the District a greater range of choices for cost reductions. Conversely, failure to implement cost saving strategies may require BLSD to make additional reductions in mission critical service areas, such as educational personnel.

## Financial Outlook

**Table 2-1** in the **financial systems** section presents the framework for a financial recovery plan for BLSD that demonstrates the impact of the performance audit recommendations on the District's financial condition. With the inclusion of the financial implications from the performance audit recommendations, and AOS adjustments to general property tax revenue line item, and personal services and ERIB expenditure line items to the District's original projections, **Table 2-10** in the **financial systems** section shows that BLSD will still likely experience deficit

ending fund balances for the last two years of the forecast period. As a result, it will be necessary for the District to consider other options for addressing the projected deficits or enact changes that go beyond the targeted savings identified in the performance audit recommendations such as requiring a higher employee contribution for health insurance and a higher reduction in staffing than is recommended within this audit. However, the outcomes in **Table 2-10** are contingent upon the attainment of BLSD and AOS projections, the timing of implementation of the performance audit recommendations, and the actual impact of those recommendations. See **R2.10** in the **financial systems** section for additional discussion.

Prior to the adoption of final strategies for addressing the financial difficulties, BLSD is encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Furthermore, enhancing the reliability of the five-year forecast (**R2.4**, **R2.5**, **R2.6**, **R2.7** and **R2.8**), developing a strategic plan (**R2.1**), improving data reporting (**R5.2**), and ensuring that revenues meet expenditures in the Food Service Fund (**R2.9**) would help ensure that potential options are based on the Districts goals and objectives.

## **Subsequent Events**

On April 24, 2009, BLSD was placed in fiscal caution by the Ohio Department of Education pursuant to Ohio Revised Code (ORC) § 3316.03. The State superintendent may place a school district in fiscal caution based upon a review of a school district's five-year forecast. The District is developing its financial recovery plan. In its updated May 2009 forecast submitted to ODE, BLSD is projecting a \$9.8 million financial deficit at the end of forecast period FY 2012-2013.

According to BLSD's July 10, 2009 foundation settlement report from ODE, the District will receive \$253,760 less in State unrestricted funding in FY 2009-2010 than in the previous year (FY 2008-09). However, BLSD will receive American Recovery and Reinvestment Act (ARRA) "stimulus" funds in which will equal the reduction in State unrestricted funds for the same year. It should be noted that the ARRA funding will be eliminated in two years (FY 2012-13), and the status of future State unrestricted funding is unknown. Therefore, the District should be cautious in its use of these funds and seek additional opportunities to reduce operating expenditure costs.

During the course of this audit, House Bill 1 (HB1) was enacted into Ohio law on July 17, 2009. This Bill contains substantial changes to the school funding formula and educational requirements for Ohio school districts. It contains several staffing requirements and lower student-to-teacher ratios in grades K-3. These requirements may increase BLSD's costs and should be considered in the District's staffing and financial recovery plan.

Also, HB 1 (ORC § 3321.01 and § 3321.05) requires that beginning in the 2010-11 school year, each school district must provide all-day kindergarten to each kindergarten student. BLSD already provides all day kindergarten and will not be affected by this provision.

## **Objectives, Scope, and Methodology**

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations 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 BLS D in identifying strategies to reduce expenditures and, in turn, help eliminate future deficits. The following present the major assessments conducted in this performance audit:

- Expenditures, forecasting, stakeholder communication, strategic planning, budgeting, and purchasing practices were reviewed in the **financial systems** section.
- District-wide staffing levels, salary and benefit costs, collective bargaining agreements, Board operations, and special education expenditures 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, expenditures, reporting, and policies and procedures were reviewed in the **transportation** section.
- Food service financial status, efficiency, performance, planning, and operations were assessed in the **food service** section.

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

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 December 2008 and April 2009.



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. BLS D's reported ADM figures or student headcounts used in the financial systems and human resource sections were subjected to trend analysis, which suggested these data were reasonable and no further testing was conducted. In the staffing and salary comparisons presented in **human resources**, District and peer data was aggregated on a functional basis to provide more relevant comparisons. 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 BLS D 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. In addition to the report, auditors also communicated less significant issues separately to District administration.

AOS developed a database of ten districts that was used for peer comparisons. The ten districts are classified by ODE as Type 1 school districts (rural/agricultural, high poverty, low median income). In addition, these ten school districts met 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 were Celina City School District (Mercer County), East Guernsey Local School District (Guernsey County), East Holmes Local School District (Holmes County), Garaway Local School District (Tuscarawas County), Leipsic Local School District (Putnam County), Logan-Hocking Local School District (Hocking County), New London Local School District (Huron County), Ridgewood Local School District (Coshocton County), Southeast Local School District (Wayne County), and Springfield Local School District (Mahoning County). Also, select comparisons were made within the audit to school districts operating within the same geographic region (i.e., Belmont County). These Belmont County school districts include: Barnesville Exempted Village School District, Bridgeport Exempted Village School District, Martins Ferry City School District, Shadyside Local School District, St. Clairsville-Richland City School District, Switzerland of Ohio Local School District, and Union Local School District. Furthermore, external organizations and sources were used to provide comparative information and benchmarks, such as the following:

- Government Finance Officers Association;
- State Employment Relations Board;

- American School and University Magazine; and
- National Center for Education Statistics.

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

## **Conclusions and Key Recommendations**

The following are key recommendations from the performance audit report. As school district issues are often complex, users of this report are encouraged to examine the full findings and recommendations contained in the detailed sections of the report:

*In the area of Financial Systems, BLS D should:*

- Develop a District-wide strategic plan which outlines its strategic vision for all educational programs and operational areas of the District.
- Develop a performance and results oriented annual budget. Additionally, the District should tie its budget to the strategic plan to ensure that budgetary goals align with the plan.
- Increase the level of detail and description of supporting material when preparing forecast assumptions.
- Update the projections for general property tax revenue to include fluctuations to the revenue stream due to reappraisals and updates.
- Forecast unrestricted grants-in-aid more conservatively, incorporating current and proposed funding levels, until such time as the State budget has been passed.
- Project personnel services based on known trends and include steps and negotiated wage increases (NWI). Through the inclusion of various options for NWIs, the Treasurer can illustrate “what-if” scenarios for the Board.
- Develop a detailed salary and benefits worksheet which takes in to account the specific variables for each employee and class of employee. The spreadsheet should include known or projected increases for each line.

*In the area of Human Resources, BLS D should:*

- Develop a formal staffing plan to address current and future personnel needs.

- Consider eliminating 2.0 FTE site-based administrative positions to achieve a level more comparable to the peers for an annual savings of \$175,500.
- Consider eliminating 17 regular education teacher positions. A reduction of 17.0 FTEs would bring the District within 20 percent of State minimum requirements, for annual savings of \$866,000.
- Consider eliminating 7.0 FTE educational service personnel for an annual savings of \$476,000.
- Eliminate at least 1.0 FTE clerical position for an annual cost savings of \$38,000.
- Renegotiate the design of its health insurance plan with its bargaining units to include a higher level of cost sharing, a wellness program, and disease management.
- Negotiate a 15 percent employee share for health insurance premiums (including dental and vision) for all bargaining and non-bargaining unit staff. This level would be in line with SERB averages and below the Kaiser average, for annual cost savings of \$311,000.

*In the area of Facilities, BLS D should:*

- Incorporate recommended practices into its Maintenance Business Plan to formally and systematically plan for its current and long-term facility needs
- Eliminate 4.0 FTE custodians to bring staffing levels more in line with industry standards and increase productivity levels within the M&O department, for an annual cost savings of \$147,000.
- Develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of M&O activities.
- Adopt a computerized maintenance management system (CMMS) to adequately track and assess maintenance work order data for a cost of \$1,000 annually.
- Develop and implement a formal energy conservation plan. The energy conservation plan should incorporate comprehensive energy management policies and procedures, which includes training and awareness programs, and require regular reviews of utility usage (audits) by Board policy for an annual cost savings of \$29,000.

*In the area of Transportation, BLS D should:*

- Increase its operating efficiency by eliminating two buses and five elementary runs. This would bring its high school/middle school runs in line with the benchmark standards of two students per seat and would improve the efficiency of elementary runs for an annual cost savings of \$100,000. The District should also consider purchasing routing software for a one-time cost of \$9,500 and \$2,000 annually.
- Develop and implement written procedures for completing, reconciling, and submitting T-forms.
- Adhere to its purchasing policy by seeking comparative pricing, which may include joining a cooperative purchasing program, such as Ohio Department of Administrative Services State term contract, so that it benefits from volume discounts.
- Develop a formal bus replacement plan that describes its strategy, including budgeting, for bus procurement in future years.

*In the area of Food Service, BLS D should:*

- Develop performance measures to ensure its food service operations are efficient. In addition, it should develop a comprehensive budget and five-year forecast for the Food Service Fund, based on its goals and objectives established in a strategic plan, to ensure that the Fund is fiscally self-sustaining.
- Charge all food service related expenses to the Food Service Fund, regardless of any future needs to transfer funds from the General Fund into the Food Service Fund.
- Eliminate 17.5 food service labor hours per day. A reduction of labor hours would increase the number of meals per labor hour (MPLH) and bring staffing levels more in line with industry benchmarks, as well as help the District operate more efficiently for an annual cost savings of \$69,000.
- Take steps to control the cost of food products and other supplies and materials associated with the food service operation by developing greater oversight of the purchasing process.

## 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 to General Fund

Recommendation	Estimated Annual Cost Savings	One-Time Costs	Estimated Annual Costs
<b>R3.2</b> Eliminate 2 administrator (site-based) FTEs	\$175,000		
<b>R3.3</b> Eliminate 17 regular education teacher FTEs	\$866,000		
<b>R3.4</b> Eliminate 7 ESP FTEs	\$476,500		
<b>R3.5</b> Eliminate 1 clerical FTE	\$38,000		
<b>R3.6 &amp; R3.7</b> Renegotiate health insurance plan with provider and increase employee contributions for health care, vision and dental to 15 percent <sup>1</sup>	\$311,000		
<b>R4.2</b> Eliminate 4 custodial FTEs	\$147,000		
<b>R4.5</b> Adopt a CMMS			\$1,000
<b>R4.6</b> Implement an energy conservation plan	\$29,000		
<b>R5.1</b> Reduce 2 buses and 5 runs	\$100,000		
<b>R5.1</b> Purchase routing software		\$9,500	\$2,000
<b>TOTAL RECOMMENDATIONS</b>	<b>\$2,142,500</b>	<b>\$9,500</b>	<b>\$3,000</b>

Source: AOS performance audit recommendations

<sup>1</sup> Increasing employee health care, vision, and dental insurance employee contributions is subject to collective bargaining.

### Summary of Financial Implications to Other Funds

Recommendation	Estimated Annual Cost Savings
<b>R3.6 &amp; R3.7</b> Renegotiate health insurance plan with provider and increase employee contributions for health care, vision and dental to 15 percent. <sup>1</sup>	\$130,000
<b>R6.3</b> Eliminate 17.5 labor hours per day	\$69,000
<b>TOTAL RECOMMENDATIONS</b>	<b>\$199,000<sup>2</sup></b>

Source: AOS Performance Audit Recommendations

<sup>1</sup> Increasing employee health care, vision, and dental insurance employee contributions is subject to collective bargaining.

<sup>2</sup> Not included in the District forecast.

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# Financial Systems

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## Background

This section of the performance audit focuses on the financial systems and strategic management functions within the Bellaire Local School District (BLSD or the District). The purpose of this section is to analyze BLSD's current and future financial condition and examine District-wide management policies and procedures in order to develop recommendations for improvement and identify opportunities to increase efficiency. BLSD's financial management policies, procedures, and operations were evaluated against recommended practices, industry standards, State requirements, operational benchmarks, and selected peer districts<sup>1</sup> for the purpose of developing recommendations to improve efficiency and business practices. Recommended practices and industry standards were drawn from various sources, including the Government Finance Officers Association (GFOA), the Ohio Revised Code (ORC), the Ohio Department of Education (ODE), the Auditor of State (AOS), and the American Institute of Certified Public Accountants (AICPA).

### *Treasurer's Office Operations*

The BLSD Treasurer's Office consists of three employees: the Treasurer, who reports to the Board of Education (the Board), and two fiscal assistants (one payroll and one budgetary), who report directly to the Treasurer. BLSD's Treasurer has been with the District as a treasurer since 1993 and has over 23 years of experience as a school treasurer in Belmont County. The Treasurer's Office is responsible for processing payroll, administering accounts payable/receivable, employee benefits, and reporting District finances to the Board and general public.

BLSD uses State software provided by OME-RESA<sup>2</sup> to manage its accounting system. It also has used some of the features of the software to computerize its purchasing procedures. Overall, the District has adequate financial policies and procedures in place. Management monitors the controls created by the policies and procedures and the materials are well written. However, BLSD might benefit from the addition of some recommended policies (see **R2.3**).

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

<sup>2</sup>The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was organized in 1975 to provide various services to school districts in ten counties of eastern Ohio.



### *Financial History and Condition*

The District is facing changes in school foundation formulas, very little growth in tax valuations, and the loss of personal property tax revenue. BLSD's local revenue is generated through 23.0 voted mills for current operating expenses, 3.83 mills for a bond retirement fund for classroom facilities, 0.5 mills for classroom maintenance, and 3.0 mills for permanent improvements. In 2008, BLSD was at the 20 mill floor for effective operating millage.<sup>3</sup> Ohio school districts at the floor receive the full value of property value growth on current expense millage during reappraisals and triennial updates.

BLSD passed its last operating levy in 1976, and, more recently, it had a failed levy attempt in 1996. In 1995, the District reduced a 6.0 permanent improvement levy by 3.0 percent as a prelude to its successful 1998 bond retirement levy.

Stagnant revenue growth, coupled with a steady increase in expenditures due to negotiated items and inflation, has resulted in a projected year-end General Fund deficit in FY 2012-13 of approximately \$989,000 (see **Table 2-1**). The District acknowledges the erosion of its prior year carryover balances, but has not implemented a sufficiently aggressive cost reduction plan to maintain a positive ending fund balance over the forecast period.

### *Financial Forecast*

ORC § 5705.391 requires each school district in Ohio to submit a five-year forecast of general operating revenue and expenditures to ODE. The forecast format consists of three years of historical data, projections for the current and four ensuing years, and a summary of key assumptions. When this performance audit was initiated, BLSD's October 2008 five-year forecast was the most recent projection available. According to the forecast, FY 2008-09 expenditures were projected to exceed revenue by approximately \$400,000, resulting in a negative ending fund balance of \$163,289. After the completion of the audit report, the District submitted an updated May 2009 forecast to ODE, which is described in the **executive summary** under *subsequent events*.

The October 2008 forecast is presented as **Table 2-1** and illustrates actual revenue, expenditures, and ending fund balances for fiscal years 2006, 2007, and 2008, as well as projected revenue, expenditures, and fund balances for fiscal years 2009, 2010, 2011, 2012, and 2013.

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<sup>3</sup> *Property Taxation and School Funding* (Ohio Department of Taxation, updated 2008) states that the law specifies that the application of the tax reduction factors cannot cause a school district's effective current expense millage rate (inside and outside combined) to fall below 20 mills (this is referred to as the 20 mill floor).

**Table 2-1: BLSD Five-Year Forecast (in 000s)**

Line	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenue</b>								
General Property Tax	\$1,539	\$1,905	\$1,976	\$2,075	\$2,178	\$2,287	\$2,402	\$2,522
Tangible Personal Property Tax	\$342	\$127	\$86	\$40	\$20	\$0	\$0	\$0
Unrestricted Grants-in-Aid	\$8,343	\$8,618	\$8,521	\$8,785	\$8,850	\$8,900	\$8,950	\$8,950
Restricted Grants-in-Aid	\$853	\$906	\$890	\$900	\$915	\$935	\$960	\$985
Property Tax Allocation	\$270	\$288	\$365	\$400	\$415	\$413	\$403	\$400
All Other Operating Revenue	\$950	\$1,065	\$976	\$1,030	\$1,049	\$1,070	\$1,092	\$1,113
<b>Total Revenue</b>	<b>\$12,296</b>	<b>\$12,909</b>	<b>\$12,813</b>	<b>\$13,230</b>	<b>\$13,427</b>	<b>\$13,605</b>	<b>\$13,807</b>	<b>\$13,970</b>
<b>Expenditures</b>								
Personnel Services	\$6,901	\$6,911	\$7,275	\$7,350	\$7,300	\$7,300	\$7,300	\$7,300
ERIB <sup>1</sup>	\$3,185	\$3,147	\$3,393	\$3,550	\$3,600	\$3,650	\$3,700	\$3,700
Purchased Services	\$1,494	\$1,698	\$1,928	\$1,975	\$2,000	\$2,100	\$2,200	\$2,300
Supplies and Materials	\$579	\$534	\$641	\$620	\$630	\$640	\$650	\$650
Capital Outlay	\$1	\$30	\$8	\$5	\$30	\$30	\$5	\$30
Other Objects	\$131	\$129	\$119	\$130	\$130	\$130	\$130	\$130
<b>Total Expenditures</b>	<b>\$12,291</b>	<b>\$12,449</b>	<b>\$13,365</b>	<b>\$13,630</b>	<b>\$13,690</b>	<b>\$13,850</b>	<b>\$13,985</b>	<b>\$14,110</b>
<i>Net Total Other Financing Uses<sup>2</sup></i>	<i>\$1</i>	<i>\$46</i>	<i>\$15</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>
<b>Total Expenditure and Other Financing Uses</b>	<b>\$12,292</b>	<b>\$12,495</b>	<b>\$13,380</b>	<b>\$13,630</b>	<b>\$13,690</b>	<b>\$13,850</b>	<b>\$13,985</b>	<b>\$14,110</b>
Result of Operations	\$4	\$415	(\$567)	(\$400)	(\$263)	(\$245)	(\$178)	(\$140)
Beginning Cash Balance	\$394	\$399	\$813	\$247	(\$153)	(\$416)	(\$661)	(\$839)
Ending Cash Balance	\$399	\$813	\$247	(\$153)	(\$416)	(\$661)	(\$839)	(\$979)
Outstanding Encumbrances	\$174	\$210	\$107	\$10	\$10	\$10	\$10	\$10
Textbook and Instructional Materials	\$71	\$6	\$25	\$0	\$0	\$0	\$0	\$0
Bus Services	\$23	\$36	\$50	\$0	\$0	\$0	\$0	\$0
Total Reservations	\$94	\$42	\$75	\$0	\$0	\$0	\$0	\$0
Unreserved Fund Balance	\$130	\$562	\$65	(\$163)	(\$426)	(\$671)	(\$849)	(\$989)

**Source:** BLSD October 2008 Five-Year Financial Forecast (Treasurer's Office and ODE)

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

<sup>1</sup> Employee retirement, insurance and benefits

<sup>2</sup> Represents the net of revenues and expenses in the other financing source line items

Forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common, as circumstances and conditions frequently do not occur as expected. The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as general property tax, unrestricted and restricted grants-in-aid, personnel services, and employees' retirement and insurance benefits. AOS analyzed the District's assumptions and methodologies for the forecast line items, and determined that the Treasurer developed the forecast with the most current information available at the time and used

acceptable methodologies. However, in some material line items, the methodologies used by the District to project expenditures and revenue are not clearly explained (see **R2.4**).

Since submitting the October 2008 forecast to ODE, economic conditions have deteriorated and the funding to school districts through the State Foundation program, determined through the State biennial budget process, is uncertain. As a result, a more conservative and detailed approach to forecasting is needed to avoid negative balances and maintain fiscal stability.

In developing the financial recovery plan displayed in **Table 2-10**, auditors updated the October 2008 forecast to reflect conditions identified during January through March 2009. Specifically, auditors recommended adjustments in the areas of general property tax (see **R2.5**), unrestricted grants-in-aid (see **R2.6**), personnel services (see **R2.7**), benefits (see **R2.8**), and encumbrances (adjusted in **Table 2-10**). Additionally, the October 2008 forecast did not include the impact of paying back the negative Food Service Fund balance of \$367,037 (as calculated at the end of FY 2007-08) or the Fund's ongoing operating losses (averaging \$32,304 over the prior three years).

At the time of the October 2008 forecast, the District projected a negative unreserved fund balance beginning in FY 2008-09, which was expected to grow to a deficit of nearly \$1.0 million by FY 2012-13. With the changes recommended by AOS, inclusion of encumbrances, and repayment of the Food Service Fund operating losses, the District's projected deficit grows to \$10.4 million in FY 2012-13. Because of the magnitude of its projected deficit, BLSD will need to consider substantial reductions in several areas to address its financial condition. A summary of the recommended reductions and financial impacts is shown in **Table 2-11**.

### *Revenue and Expenditures*

**Table 2-2** compares BLSD's revenue per student with the peer average.

**Table 2-2: FY 2007-08 General Fund Revenues per Student**

	BLS D	Peer Average	Difference	% Difference
<b>Students<sup>1</sup></b>	<b>1,375</b>	<b>1,635</b>	(260)	(15.9%)
General Property Tax	\$1,499	\$3,257	(\$1,758)	(54.0%)
Intergovernmental Revenues	\$6,486	\$4,761	\$1,725	36.2%
Other Revenues	\$854	\$694	\$161	23.2%
<b>Total Revenue</b>	<b>\$8,840</b>	<b>\$8,712</b>	<b>\$127</b>	<b>1.5%</b>

Source: ODE 4502 Exhibit 2 for Revenue and SF-3 reports

<sup>1</sup> Based on average daily membership calculated by ODE on the District's FY 2007-08 final SF3 report

**Table 2-2** shows that BLSD's total revenue per student is about 1.5 percent higher than the peers. This difference is due to higher *other revenues*, which consist primarily of tuition for open enrollment students. BLSD receives \$604 in open enrollment tuition per student, compared with the peer average of \$328 per student. BLSD is also more reliant on *intergovernmental revenues*

than the peer average, due to its high populations of special needs and economically disadvantaged students. Only 17 percent of the District’s revenue comes from local sources.

BLSD’s lower property tax revenue is a function of the District having generally lower property values and lower effective operating millage relative to the peer average. In FY 2007-08, BLSD’s assessed property valuation was approximately \$113 million (\$82,000 per student), compared with the peer average of approximately \$218 million (\$133,000 per student). Although property tax revenue represents a smaller portion of BLSD’s total revenue, recent economic conditions have led the Ohio Department of Taxation to project stagnant or declining property valuation in the coming years, which will impact the District’s revenue collections.

**Table 2-3** compares BLSD’s assessed valuation per ADM with the peer average.

**Table 2-3: Property Valuations**

	<b>BLSD</b>	<b>Peer Average</b>	<b>Difference</b>	<b>Percent Difference</b>
<b>ADM</b>	1,375	1,635	(260)	(15.9%)
<b>Assessed Valuation</b>	\$112,648,860	\$217,787,483	(\$105,138,623)	(48.3%)
<b>Valuation per ADM</b>	\$81,903	\$133,187	(\$51,285)	(38.5%)

Source: FY 2007-08 ODE SF-3 Reports

The District has a substantially lower (48.3 percent) assessed valuation compared with the peer districts. As a result, BLSD raises less revenue on voted millage than peer districts. Property taxes levied on BLSD residents and businesses produce about \$108,100 for each mill.

**Table 2-4** provides a comparison of BLSD’s spending by category, compared with the peer averages.

**Table 2-4: FY 2007-08 Expenditures per Student**

	<b>BLSD</b>	<b>Peer Average</b>	<b>Difference</b>	<b>% Difference</b>
Wages	\$4,871	\$4,624	\$247	5.3%
Fringe Benefits	\$2,279	\$1,853	\$425	23.0%
Purchased Services	\$1,401	\$1,002	\$399	39.8%
Supplies & Materials	\$466	\$335	\$131	39.2%
Capital Outlay	\$6	\$121	(\$115)	(94.9%)
Debt Service	\$0	\$4	(\$4)	0.0%
Miscellaneous	\$87	\$203	(\$116)	(57.2%)
Other Financing Uses	\$156	\$224	(\$68)	(30.4%)
<b>Total Expenditures</b>	<b>\$9,266</b>	<b>\$8,366</b>	<b>\$901</b>	<b>10.8%</b>

Source: ODE FY 2007-08 Reports: SF-3 for ADM, ODE 4502 Exhibit 2 for Revenues, ODE 4502 Statement P for Expenditures

**Table 2-4** shows that BLSD spent 10.8 more per student than the peer average. Explanations for the higher expenditures include the following:

- **Wages and Fringe Benefits:** When combined, wages and benefits were \$673 higher per ADM than the peer districts. An analysis in **human resources** indicates that BLSD employed 163.8 FTEs per 1,000 students, compared with the peer average of 126.9 FTEs per 1,000 students. Higher staffing accounted for the difference in expenditures. In addition, higher health insurance costs and limited cost sharing of premiums drove up BLSD's costs per student.
- **Purchased Services:** BLSD paid \$932 per student compared with the peer average of \$445 per student for out-of-district tuition, which was for students leaving BLSD to open enroll in other districts. Open enrollment costs had a more profound effect on BLSD's expenditures than the peers, as the costs comprised about 66.5 percent of purchased service expenditures, compared with 45.2 percent for the peers.
- **General Supplies:** BLSD was higher per pupil in general supply costs and motor vehicle related expenses. Expenditures for general supplies (\$373,000) were primarily composed of textbook purchases (\$215,611) and multi-handicap testing materials (\$122,251). Expenditures for motor vehicle related supplies (\$220,289) included expenditures for fuel, tires, and bus supplies. An aging bus fleet and fuel purchases are discussed in **transportation**. Similarly, BLSD has increased the volume of goods it purchases to maintain its facilities (\$268,000) because of the age of the buildings and expiring warranties for key systems. These expenses also contributed to the higher than average expenditures in this category.

**Table 2-5** compares BLSD's FY 2007-08 governmental expenditures per student and as a percentage of total expenditures with the peer average.

**Table 2-5: Governmental Expenditures by Function**

Students	BLSD		Peer Average		Difference	
	1,375		1,635		(260)	
USAS Function Classification	\$ Per Student	% of Exp	\$ Per Student	% of Exp	\$ Per Student	% Difference
<b>Instructional Expenditures:</b>	<b>\$7,162</b>	<b>62.0%</b>	<b>\$5,535</b>	<b>59.4%</b>	<b>\$1,627</b>	<b>29.4%</b>
Regular Instruction	\$3,954	34.2%	\$4,021	43.3%	(\$67)	(1.7%)
Special Instruction	\$1,497	13.0%	\$1,059	11.3%	\$438	41.4%
Vocational Education	\$146	1.3%	\$251	2.7%	(\$105)	(41.8%)
Adult/Continuing Education	\$0	0.0%	\$2	0.0%	(\$2)	(100.0%)
Other Instruction	\$1,565	13.5%	\$203	2.1%	\$1,362	670.9%
<b>Support Service Expenditures:</b>	<b>\$3,994</b>	<b>34.5%</b>	<b>\$3,437</b>	<b>37.0%</b>	<b>\$557</b>	<b>16.2%</b>
Student Support Services	\$829	7.2%	\$406	4.3%	\$423	104.2%
Instructional Support Services	\$88	0.8%	\$459	5.0%	(\$371)	(80.8%)
Board of Education	\$18	0.2%	\$21	0.2%	(\$3)	(14.3%)
Administration	\$1,009	8.7%	\$800	8.6%	\$209	26.1%
Fiscal Services	\$240	2.1%	\$278	3.0%	(\$38)	(13.7%)
Business Services	\$0	0.0%	\$8	0.1%	(\$8)	(100.0%)
Plant Operation & Maintenance	\$1,086	9.4%	\$803	8.7%	\$283	35.2%
Student Transportation	\$725	6.3%	\$629	6.8%	\$96	15.3%
Central Support Services	\$0	0.0%	\$32	0.3%	(\$32)	(100.0%)
<b>Non-Instructional Service Expenditures</b>	<b>\$183</b>	<b>1.6%</b>	<b>\$44</b>	<b>0.5%</b>	<b>\$139</b>	<b>315.9%</b>
<b>Extracurricular Activity Expenditures</b>	<b>\$223</b>	<b>1.9%</b>	<b>\$292</b>	<b>3.2%</b>	<b>(\$69)</b>	<b>(23.6%)</b>
<b>Total Governmental Fund Operational Expenditures</b>	<b>\$11,562</b>	<b>100.0%</b>	<b>\$9,307</b>	<b>100.0%</b>	<b>\$2,255</b>	<b>24.2%</b>

Source: ODE, 4502 Exhibit 2

As shown in **Table 2-5**, BLSD's per student Governmental Fund expenditures were 24.2 percent higher than the peer average. In general, BLSD spent more in instructional and support service expenditures. More specifically, the areas of higher spending include:

- Instructional Expenditures:** BLSD's instructional expenditures were 29.4 percent higher (\$1,627) than the peer average overall, with special education and other instruction being the primary drivers. The District spent \$1,362 more per student on other instruction than the peer average. Of BLSD's \$2.1 million in other instruction expenditures, 60 percent were related to tuition or excess costs paid to other districts from the General Fund, while 39 percent were poverty-based intervention services paid from a special revenue fund. The remaining expenditures related primarily to student early intervention screening and testing materials.
- Support Service Expenditures:** BLSD's support service governmental expenditures were 16.2 percent higher (\$557) per student than the peer average in FY 2007-08. Within support service expenditures, BLSD was significantly higher than the peer averages in

student support services, administration, plant operation and maintenance, and transportation.

- **Student Support Services:** The majority of expenditures in this category (63 percent) were salaries and employee retirement and insurance benefits (ERIB) paid through grants and poverty based support. The remaining General Fund expenditures (37 percent) were for guidance, nursing, psychology, and social service support. See **human resources** for an analysis of the District's support staffing levels.
- **Administration:** The majority of expenditures in this category were for administrative salaries and ERIB. See **human resources** for an analysis of the District's administrative staffing levels.
- **Plant Operation and Maintenance:** BLSLSD spent \$283, or 35.2 percent, more per student than the peer average for plant operation and maintenance. These expenditures included activities performed to maintain District grounds, buildings, and equipment in an effective and safe working condition. For further analysis of staffing and operations affecting the District's plant operation and maintenance, see **facilities**.
- **Transportation:** Higher transportation costs are related to the cost of providing student transportation services and are analyzed further in **transportation**.

### *Discretionary Expenditures*

Discretionary expenditures per student in FY 2007-08 were 24.3 percent lower than the peer average and represented 8.3 percent of total governmental fund expenditures. Discretionary spending increased 18.5 percent from FY 2006-07 to FY 2007-08 because of cost increases in professional/technical services, general supplies, and fleet maintenance/repair costs. Although general supplies costs were more than twice the peer average, 90.5 percent of the expenses were related to textbooks and testing materials.

## **Audit Objectives for the Financial Systems Section**

The following is a list of the questions used to evaluate financial systems at BLSD:

- What has been the District's financial history and does the District have policies and procedures to ensure effective and efficient management?
- Does the five-year forecast reasonably and logically project the future financial position of the District?
- Does the District have an effective system of communicating its financial data and does the District actively involve parents and other stakeholders in the decision making process?
- Has the District developed a strategic plan that links educational and operational plans and incorporates recommended practices?
- Is the District's budgetary process consistent with recommended budgetary practices, and how does the District's revenue and expenditure information compare with the peers?
- Do the District's purchasing practices follow best practices and do procedures ensure adequate internal control over purchases?
- Has the District developed effective internal controls over the payroll process?

BLSD met recommended practices in the management of its purchasing process.



## Recommendations

### *Planning and Budgeting*

**R2.1** BLSD should develop a District-wide strategic plan outlining its strategic vision for all educational programs and operational areas of the District. In preparing the plan, the District should include detailed goals, objectives, benchmarks, timeframes, performance measures, cost estimates, and funding sources. In addition, BLSD should link the strategic plan to the annual budget, the five-year forecast, the facilities master plan (see facilities), the food service plan, the Comprehensive Continuous Improvement Plan (CCIP), and any other educational and operational plans.

**This approach will shift the focus of budgetary decisions from inputs (salaries and costs of purchased goods and services) to outputs, and ultimately to the accomplishment of the goals and objectives stated in the District’s strategic plan. Once a comprehensive strategy is adopted and approved, BLSD should assess all parts of the strategic plan on an annual basis and, as appropriate, amend its priorities to reflect changes in the internal and external environments.**

BLSD does not have a comprehensive District-wide strategic plan that incorporates long-range planning or links plans to spending decisions and performance measures reflecting the priorities of the District. Instead, the Treasurer develops a budget and forecast based on immediate needs, existing contractual obligations, and historical spending levels. Although the District has experienced an overall decline in enrollment, it has experienced an increase in open enrollment (out of District) and special education students, which impacts the District’s finances. As resources become scarcer, the lack of strategic planning creates an environment where decision makers react to events as they transpire instead of following a deliberate course aligned with District goals.

The District’s Comprehensive Continuous Improvement Plan (CCIP) dominates its long-term planning process. The CCIP is a unified grants application and verification system used by ODE that consists of two parts: the Planning Tool and the Funding Application. The Planning Tool contains the goals, strategies, action steps, and district goal amounts for all grants in the CCIP. The Superintendent indicated that the CCIP has goals for improving District professional development and educational goals to meet grant requirements. While the CCIP represents instructional programs, BLSD has not developed long-term planning documents for its business-side operations, nor has it integrated business-side operations into overall District goals.

*Recommended Budget Practice on the Establishment of Strategic Plans* (GFOA, 2005) advocates that all governments develop strategic plans in order to provide long-term perspectives for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals. The focus of a strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. Accordingly, the District should take the following actions when developing its strategic plan:

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

A strategic plan should be broad and should provide resource direction to all operations. It should clearly identify the broad goals for all funds and operations. Subsequently, each program should have a plan that integrates into the broader District-wide plan.

For example, the District's General Fund has historically subsidized the Food Service Fund, so an integrated strategic plan that includes the goals and objectives for the food service operations could help remedy operating losses (see **food service** for further analysis). According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), a budget, when used as a plan for financial management, can help managers forecast revenue and expenses based on prior years' data, estimates, and planned changes. The budget and forecast can also identify potential problems by contrasting actual and projected financial activity, providing a basis for comparison. Furthermore, these plans and accompanying financial documents can set performance standards, help control erratic expenditures, and assess the affordability of planned purchases. Incorporating these plans into BLSD's food service operations and then tying it to a District-wide strategic plan would help the District ensure the operation receives adequate attention and supports broader District goals.

A District-wide strategic plan will help BLSD gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing its finances with its educational mission. In addition, a strategic plan could help improve communication between the District and community, provide direction for the Board, and align planning and budgeting processes.

**R2.2 The District should develop a performance and results oriented annual budget. Additionally, the District should refer to its strategic plan (see R2.1) to ensure that budgetary goals align with the plan. This approach would improve the District's ability to obtain the best outcomes possible with its limited resources. The budget should include performance measures to enable the District to track progress towards meeting its goals.**

**Furthermore, BLS D should consider soliciting a greater level of input from stakeholders during the budgeting process. The District can do this by requiring more feedback early in the process, establishing priorities, and identifying performance measurements based on outcomes.**

BLS D has Board policies governing preparation of the budget, including annual appropriations, budget adoption procedures, and budget transfer authority. These policies are designed to ensure the District maintains compliance with State requirements and meets timelines for preparation and submission of an annual tax budget and annual appropriations resolution.

In January 2009, the District submitted a proposal to ODE to reduce spending in an effort to mitigate the projected FY 2008-09 deficit shown on the October 2008 forecast (see **Table 2-1**). The District's proposal included a reduction in personnel costs of approximately \$59,000, and another \$107,000 in savings from cost cutting measures in supplies and materials and purchased services. However, the District acknowledged that the proposed personnel reductions have not been made. A review of spending levels as of March 31, 2009 shows that personnel service and benefit spending was \$135,449 above budgeted amounts. In contrast, purchased services and supplies and material costs were below budgeted amounts by \$101,000 and \$40,000 respectively.

The proposal submitted to ODE did not address the outstanding food service negative fund balance, leaving the proposed savings short of the amount necessary to ensure solvency. The additional amounts needed to resolve the deficit in the Food Service Fund, coupled with a failure to implement the proposed cost reductions places the District in a precarious financial position. In order to ensure solvency and avoid fiscal oversight, the Superintendent and Board must develop and execute a formal recovery plan in BLS D's upcoming budget process.

*Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achievement of previously developed goals and objectives as defined by government-wide strategic plans.

According to *The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis* (Osborne and Hutchinson, 2004), budgeting for outcomes focuses on buying results for citizens rather than cutting or adding to last year's spending programs. It shows how leaders can use consolidation, competition, choice, and a relentless focus on results to save money while improving services. Once the problem is identified as being either long-term or short-term, and driven by revenue or expenditures, the key steps include:

- **Set the price:** Establish up front how much citizens are willing to spend. Get agreement on a revenue forecast and any tax or fee changes.
- **Set the priorities:** Define the outcomes or results that matter most, along with indicators to measure progress.
- **Set the price of each priority:** Divide the price or revenue among the priority outcomes on the basis of their relative value to citizens.
- **Develop a purchasing plan for each priority:** Create "results teams" to act as purchasing agents for the citizens. Ask each team to decide which strategies have the most impact on their desired outcomes.
- **Solicit offers to deliver the desired results:** Invite departments to propose how they would deliver the results and at what price. Then choose proposals that will provide the best results for the money.
- **Negotiate performance agreements:** These should spell out the expected outputs and outcomes, how they will be measured, the consequences for non-performance, and the flexibilities granted to help the provider maximize performance.

*Budgeting Right When Revenue is Tight* (Governing, 2008) recommends ten budget coping strategies that include the following:

- Implement a 30 day re-look process (break the annual budget into twelve 30-day budgets);
- Maintain structural balance;
- Preserve cash;
- Implement tough initiatives;
- Address employees' emotional fears and concerns;
- Ensure all operations contribute to savings;
- Gain broad-based support for "being part of the solution;"

- Use incentives, prizes, praise, rewards, and recognition for non-tax revenue increases or cost-cutting ideas;
- Distribute financial data widely to maintain credibility; and
- Maintain long-term goals and financial planning processes.

By developing a budget based on goals and objectives outlined in the strategic plan, BLSD can monitor progress and focus the District's limited resources toward efficient and effective uses of its revenue. Furthermore, including key managers in the budgeting process would ensure that the budget incorporates each administrator's knowledge of building and department needs, while featuring proposals to gain the best returns for the District's investment of its resources.

### *Policies*

**R2.3 BLSD should enhance its financial management policies to include elements of *Recommended Practices on Adoption of Financial Policies* (GFOA, 2001), particularly those practices that address maintaining fiscal stability and preparing for unforeseen fiscal events. The policies should be tailored specifically to the District and its operations. The District should then ensure that its financial and budgetary practices are consistent with updated policies.**

BLSD has developed financial management policies which include fiscal management goals, budget timing and appropriations, funding proposals and applications, fiscal accounting and reporting, purchasing, payment procedures, and credit card use. In general, major areas of internal control are incorporated into the policies, but the policies lack certain elements of recommended practices that would help BLSD better address its declining fiscal condition. Recent economic events make it more important for governments to prepare for fluctuations in both revenue and expenditures.

According to the GFOA's recommended practices, financial policies should be consistent with broad organizational goals and should be the outcome of sound analysis. Financial management policies should provide guidance to the District in the development of service, capital, and financial plans and the overall budgeting process. All other adopted budgetary practices should be consistent with these policies. GFOA-recommended policies and practices not addressed in BLSD's financial policies include the following:

- **Debt issuance and management** – The policies should include purposes for which debt may be issued; matching of the useful life of an asset with the maturity of the debt; limitations on the amount of outstanding debt; types of permissible debt; structural features, including payment of debt service and any limitations resulting from legal provisions or financial constraints; refunding of debt; and

investment of bond proceeds. Legal or statutory limitations on debt issuance should be incorporated into debt policies.

- **Debt level and capacity** – A government should develop distinct policies for general obligation debt, debt supported by revenues of government enterprises, and other types of debt such as special assessment bonds, tax increment financing bonds, short-term debt, variable-rate debt, and leases. Limitations on outstanding debt and maximum debt service may be expressed in dollar amounts or as ratios, such as debt per capita.
- **One-time revenues** – This policy should limit the use of one-time revenues for ongoing expenditures. By definition, one-time revenues cannot be relied upon in future budgets. A policy on the use of one-time revenues should provide guidance to minimize disruptive effects on services due to non-recurrence of these sources. One-time revenues and allowable uses for those revenues should be explicitly defined within the policy (examples include proposed government stimulus dollars or additional one-time grants).
- **Unpredictable revenues** – For each major unpredictable revenue source, a government should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, a government should identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. A government should decide in advance on a set of tentative actions to be taken if one or more of these sources generate revenues substantially higher or lower than projected.
- **Contingency planning** – This policy should identify types of emergencies or unexpected events and the way in which these situations will be handled from a financial management perspective. It should consider operational and management impacts.
- **Reserve or stabilization of funds** – A government should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- **Long-range planning** – A government should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs, and assumptions.

By including the unaddressed GFOA-recommended elements in the District's policies and administrative guidelines, BLSD can take steps toward improving financial decision making, and the ability of the District to take timely action. In addition, strong financial policies aid in the overall management of the budget and achievement of the District's long-range goals.

### *Forecasting and Adjustments*

**R2.4 BLSD should increase the level of detail and description of supporting material when preparing forecast assumptions. For instance, forecast assumptions should include calculation methodologies as well as anticipated expectations made in those calculations.**

The Treasurer prepares the 5-year forecast with indirect participation from teachers, principals, transportation staff, human resources staff, and other sections of the District operations. The forecast is presented and discussed with the finance committee prior to presentation to the Board. The finance committee has sufficient time to review and question the forecast.

Although the Treasurer used up-to-date information when the October 2008 forecast was created, the change in the economic conditions, nationally and, by extension, in the District, has made the information outdated. Also, some line items did not contain sufficient detail in the written assumptions to explain the projections. Auditors recommended adjustments to the forecast in general property taxes (see **R2.5**), unrestricted grants-in-aid (see **R2.6**), personnel services (see **R2.7**), benefits (see **R2.8**), and advances-out to support the Food Service Fund (see **food service**).

The auditing and accounting guide *Prospective Financial Information* (AICPA, 2008) states that the disclosure of significant assumptions is essential to the reader's understanding of the financial forecast. The basis or rationale for the assumptions should be disclosed to assist the user of the financial forecast in understanding the presentation and making an informed judgment about it.

Key factors are those significant matters upon which an entity's future results are expected to depend. These factors are basic to the entity's operations and serve as the foundation for the prospective financial statements. Key factors vary by entity and industry. Documentation involves recording the underlying assumptions as well as summarizing the supporting evidence for the assumptions. Documentation also provides the ability to trace forecasted results back to the support for the basic underlying assumptions.

Adequate documentation makes it possible for persons who are experienced and qualified to develop financial forecasts to reconstruct the financial forecasts. Documentation covers

the process, as well as the individual financial forecasts, and provides an organized record of both that can be maintained and made available for subsequent use. These factors are basic to the entity's operations and serve as the foundation for the prospective financial statements.

Furthermore, the *Auditor of State's Best Practices* (AOS, Spring 2004) outlines some common problems noted with, and typical recommendations for enhancement of, five-year forecasts. One common problem is the lack of assumptions, so AOS recommends districts create more detailed assumptions to allow the reader to understand the factors included in each line item of the forecast.<sup>4</sup>

BLSO could improve the accuracy, reliability, and public understanding of its forecast by providing assumptions that are more detailed as a component of its forecast. Presenting the detail involved in each line item would be beneficial to a reader who is not familiar with the complexities of school funding. Effectively communicating the methodology and including visual aids and tables used to forecast anticipated revenue and expenditures would provide BLSO, the Board, and stakeholders with improved information on which to make financial decisions and successfully plan for the District.

**R2.5 The Treasurer should update the projections for real property tax revenue to include fluctuations to the revenue stream due to reappraisals and updates. As current economic conditions dictate a more conservative approach than that applied in October 2008, the Treasurer should closely monitor data from Belmont County and the Ohio Department of Taxation, and should apply known factors and emerging trends to the real property tax line of the forecast.**

The Treasurer's forecast assumed a 5 percent increase each year from FY 2009 to FY 2013. Historically, the average increase for real estate tax revenue was 15.76 percent in reappraisal years (last occurring in 2006) and 7.28 percent in update years (last occurring in 2003). In other years, the increase was approximately 1 percent. The median over the past six years was 4.5 percent annually, but this does not account for the timing of reappraisal and update years.

In October, BLSO projected it would receive a total of \$2,075,000. However, the March 2009 tax settlement was \$1,896,925, or 8.6 percent below projections and 4.0 percent below 2007-08 collections. The County Auditor stated that BLSO was highly unlikely to receive any additional revenue in FY 2008-09 due to the general economic conditions affecting the State and its political subdivisions.

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<sup>4</sup> For the full publication see:

[www.auditor.state.oh.us/Publications/BestPractices/BestPractices\\_Vol1Issue1\\_Spring%202004.pdf](http://www.auditor.state.oh.us/Publications/BestPractices/BestPractices_Vol1Issue1_Spring%202004.pdf)



Although the percentage increase projected in the forecast is only slightly above the six year average of 4.5 percent, economic conditions have deflated valuations and may result in decreases in revenue during updates and reappraisals in the coming years. Therefore, auditors recommended no average increase be applied to real property tax revenue through this forecast period (FY 2012-13) based on recent information from the Ohio Department of Taxation. In FY 2012-13, auditors recommend applying half of the historical impact of reappraisal, or 7.5 percent, in anticipation of a projected economic recovery. The Treasurer should monitor the trends in property tax collections closely and adjust the projections as necessary.

The ODE reference, *How to Read a Forecast*,<sup>5</sup> which is intended as a guide for those of varying levels of familiarity with school finance, cautions that aside from typical trends in valuation, a district may experience fluctuations for other reasons. The assumptions to the forecast should explain these fluctuations in detail.

**Table 2-6** shows the impact of the changes in real estate tax assumptions over the life of the forecast.

**Table 2-6: Real Estate Tax Adjustment to Forecast**

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted General Property Tax	\$2,075,000	\$2,178,000	\$2,287,000	\$2,402,000	\$2,522,000
Adjusted General Property Tax	\$1,896,925	\$1,896,925	\$1,896,925	\$1,896,925	\$2,039,194
Difference	(\$178,075)	(\$281,075)	(\$390,075)	(\$505,075)	(\$482,806)

Source: District October 2008 forecast/AOS calculations

**R2.6 The District should forecast unrestricted grants-in-aid conservatively, incorporating current and proposed funding levels, until such time as a decision on the State budget has been reached. Additionally, the District should include additional detail in the forecast to illustrate the impact of one-time revenues, such as grants and federal monies.**

The Treasurer's assumptions for unrestricted grants-in-aid state that the anticipated State foundation revenue for FY 2008-09 is based on current estimates provided by ODE using the October 10, 2008 SF-3 report. The Treasurer's FY 2009-10 through FY 2012-13 forecast projection is based on historical information. Because significant changes have been proposed to school funding in the State budget for FY 2009-10 and 2010-11, but HB 1 was not approved by the Ohio General Assembly at the time of this audit, it is extremely difficult to project future State funding and the impact on BLSA's financial operations.

Initial projections of the revenue BLSA would receive under the proposed new model do not follow historical trends. BLSA has had declining enrollment for several years, and the

<sup>5</sup> Publication posted at <http://www.ode.ohio.gov>.

District may receive a lower revenue amount as a result. Under the proposed funding plan, BLSD would be held harmless in FY 2009-10 and in FY 2010-11, would be funded at 98 percent of the FY 2009-10 funding level. FY 2011-12 funding would be established in the next State biennium budget cycle, which won't be developed until 2011.

Auditors determined that, based on the uncertainties of the State budget process and State revenue projections during late 2008 and early 2009, a flat projection for unrestricted grants-in-aid would be a more appropriate scenario. **Table 2-7** shows the impact of the changes in unrestricted grants-in-aid projections over the life of the forecast.

**Table 2-7: Unrestricted Grants in Aid Adjustment to Forecast**

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted Unrestricted Grants	\$8,785,000	\$8,850,000	\$8,900,000	\$8,950,000	\$8,950,000
Adjusted Unrestricted Grants	\$8,785,000	\$8,785,000	\$8,609,300	\$8,609,300	\$8,609,300
Difference	\$0	(\$65,000)	(\$290,700)	(\$340,700)	(\$340,700)

Source: District October 2008 Forecast/AOS calculations

**R2.7 The Treasurer should project personnel services based on known trends, and should include steps and negotiated wage increases. Through the inclusion of various options for negotiated wage increases, the Treasurer can illustrate “what-if” scenarios for the Board. This will help the Board ensure that any negotiated increase is within the District’s means.**

The Treasurer projected personnel services based on anticipated bargaining unit contract changes and anticipated future staffing reductions. The District submitted to ODE, but has not taken steps to enact, a financial recovery plan that included planned staffing reductions. Historically, the District has negotiated wage increases between 2.5 percent and 4.5 percent. Additionally, a review of the contractual salary schedule steps showed the average annual step increases throughout the salary schedules were 1.68 percent for certificated employees with bachelor’s degrees, 1.97 percent for certificated employees with master’s degrees, and 0.73 percent for classified employees. The District incurs average substitute costs of \$195,000 per year for all positions.

The Treasurer’s projected FY 2008-09 personnel services amount was \$7,350,000. However, the salary worksheet provided by the Treasurer plus average substitute costs exceeded this amount. Additional amounts for overtime and severance were also not included.<sup>6</sup>

ODE’s *How to Read a Forecast* states that since schools are service-oriented entities, salaries and wages represent the bulk of school district expenditures. Fluctuations may

<sup>6</sup> Auditors did not adjust the figures for FY 2008-09 because of the timing of the audit work. Adjustments are included beginning in FY 2009-10.

occur due to reductions in force, negotiated salary schedule changes, retirement levels, or changes in enrollment, which may cause the required staffing levels to fluctuate.

Auditors adjusted salary projections to include 1 percent annual step increases and assumed the District would negotiate 2.5 percent annual wage increases—on the low end of historical amounts—for a total of 3.5 percent. Additionally, the average yearly substitute costs were added to the calculation. **Table 2-8** shows the impact of the changes in personnel services over the life of the forecast.

**Table 2-8: Personnel Services Adjustment to Forecast**

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted Personnel Services	\$7,350,000	\$7,300,000	\$7,300,000	\$7,300,000	\$7,300,000
Adjusted Personnel Services	\$7,350,000	\$7,802,250	\$8,270,329	\$8,754,790	\$9,256,208
Difference	\$0	\$502,250	\$970,329	\$1,454,790	\$1,956,208

Source: District October 2008 Forecast/AOS calculations

**R2.8 The Treasurer should develop a detailed benefits worksheet which takes into account the specific variables for each employee and class of employee. The spreadsheet should include known or projected increases for each line, including all aspects of benefits. A greater level of detail will help the Treasurer more accurately forecast these line items into the future and provide perspective (through “what if” scenarios) on the impact of potential changes to benefits. Additionally, benefits paid from the General Fund for employees whose salaries are paid using other funds<sup>7</sup> should be clearly identified so that District administrators can determine the impact of these on the General Fund.**

The Treasurer states in her assumptions that the employee retirement/insurance benefits (ERIB) line item includes payments to the employee State pension plans, Medicare, workers’ compensation, health care, and other insurances. Additionally, the District picks up 7 of the 10 percent employee share of the certificated employee retirement contribution. The Treasurer also states that benefits for some grant-funded positions are charged to the General Fund, depending on the solvency of the relevant grant fund. Specifically, benefits for four positions funded by grants were paid from the General Fund in FY 2008-09.

ODE’s *How to Read a Forecast* states that components of the benefit line item, such as retirement contributions and medicare, will have a direct correlation to the personnel services line item. Factors that could cause inconsistencies from year to year might include increased health insurance costs, future employee contributions toward medical costs, early retirement incentives, premium holidays, insurance claim payouts, etc.

<sup>7</sup> For example, grants, food service, Title VI-B, etc.

The Treasurer compiled a detailed salary and benefit worksheet for AOS to use during the course of this audit. This level of detail can also help the Board understand the impact of changes to benefits and of supplementing grant-funded positions with the General Fund. Providing the Board with additional detail, such as that contained in the benefits worksheet, would help the Board make strategic decisions on future grant-funded positions and changes to benefit levels (see **R2.1**).

Historically, benefit costs from FY 2005-06 through FY 2007-08 averaged 46.1 percent of personnel service costs. **Table 2-9** shows the impact of applying the historical benefit as a percentage of salary (46.0 percent) for forecasting purposes.

**Table 2-9: ERIB Adjustment to Forecast**

Line Item	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Forecasted ERIB	\$3,550,000	\$3,600,000	\$3,650,000	\$3,700,000	\$3,700,000
Adjusted ERIB	\$3,550,000	\$3,589,035	\$3,804,351	\$4,027,204	\$4,257,856
Difference	\$0	(\$10,965)	\$154,351	\$327,204	\$557,856

Source: District October 2008 Forecast/AOS calculations

**R2.9 The District should transfer the appropriate amount of money from the General Fund to the Food Service Fund to eliminate the negative fund balance in accordance with Ohio law.<sup>8</sup> Additionally, BLSD should make the necessary adjustments to food service operations to ensure that revenues meet or exceed expenditures, so that the Food Service Fund remains solvent and does not impact the General Fund in future years.**

Financial audit citations dating back to at least FY 2004-05 show that that the District has not addressed ongoing negative Food Service Fund balances. The Treasurer has addressed some of the cash flow issues in the Food Service Fund with more timely filing of required reimbursement reports. However, BLSD has not taken action to address the underlying issues that cause the food service program to operate at a loss. The financial audits recommended the District consider advances to cover operating deficits in lieu of short-term loans. The recommendation includes consulting AOS Bulletin 97-03 to determine whether an advance of funds to prevent a deficit cash balance would be appropriate. Additionally, transfers can be used as permanent reallocations of money from one fund to another only as authorized in ORC § 5705.14 to ORC § 5705.16. In order to maintain a positive fund balance, the District should develop a long-term plan to solve the ongoing deficit in the Food Service Fund (see **R2.1** for discussion on strategic planning and the **food service** section for further discussion). The District will need to transfer \$467,037<sup>9</sup> to the Food Service Fund in FY 2008-09 to eliminate the negative fund balance. This amount will be reflected in the forecast.

<sup>8</sup> ORC § 5705.14 through ORC § 5705.16

<sup>9</sup> This figure includes the accumulated deficit plus the estimated operating deficit for FY 2008-09 of \$100,000.

*Financial Implication:* BLSD will experience a one-time cost of \$467,037 to eliminate the negative Food Service Fund balance. The District will need to implement the other recommendations in **food service** to ensure that fund deficits do not occur in the future.

**R2.10 BLSD should implement the recommendations contained in the performance audit to help offset projected deficits and to assist the District with efforts to maintain a positive fund balance through FY 2012-13. In addition, BLSD should continue to update its five-year financial forecast on a regular basis, especially whenever material changes in assumptions are made or unanticipated events occur.**

By implementing the performance audit recommendations, including those subject to negotiations, BLSD should be able to maintain a positive fund balance in FY 2009-10 and FY 2010-11. However, without significant changes in its revenues and expenditures, including additional reductions or cost-saving changes in operations, the District will experience a \$1.6 million deficit at the end of the forecast period (FY 2012-13). Given the uncertainty of future State and local revenue, the District will need to continue to update the forecast each year and make further reductions in expenditures to maintain fiscal stability.

The recommended staffing reductions contained in **human resources** could have a significant negative effect on the educational programs of BLSD. Whenever possible, BLSD should seek to identify savings in non-instructional areas prior to reducing staffing with a direct impact on education.

Regardless, the magnitude of the reductions will require careful deliberation and management so as to produce the least impact on District operations while gaining the maximum financial benefit. Sizable cost reductions are needed to offset the large operating deficit projected in each year of the forecast.

**Table 2-10** includes the adjustments to the October forecast and demonstrates the impact of the recommendations on the five-year forecast ending fund balances, assuming the recommendations are fully implemented.

**Table 2-10: Financial Recovery Plan**

Account	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
<b>Revenue</b>								
General Property Tax	\$1,539	\$1,905	\$1,976	\$1,897	\$1,897	\$1,897	\$1,897	\$2,039
Tangible Personal Property Tax	\$342	\$127	\$86	\$40	\$20	\$0	\$0	\$0
Unrestricted Grants-in-Aid	\$8,343	\$8,618	\$8,521	\$8,785	\$8,785	\$8,609	\$8,609	\$8,609
Restricted Grants-in-Aid	\$853	\$906	\$890	\$900	\$915	\$935	\$960	\$985
Property Tax Allocation	\$270	\$288	\$365	\$400	\$415	\$413	\$403	\$400
All Other Revenue	\$950	\$1,065	\$976	\$1,030	\$1,049	\$1,070	\$1,092	\$1,113
<b>Total Revenue</b>	<b>\$12,296</b>	<b>\$12,909</b>	<b>\$12,813</b>	<b>\$13,052</b>	<b>\$13,081</b>	<b>\$12,924</b>	<b>\$12,961</b>	<b>\$13,146</b>
<b>Expenditures</b>								
Personnel Services	\$6,901	\$6,911	\$7,275	\$7,350	\$7,802	\$8,270	\$8,755	\$9,256
Employees' Retirement/Insurance Benefits	\$3,185	\$3,147	\$3,393	\$3,550	\$3,589	\$3,804	\$4,027	\$4,258
Purchased Services	\$1,494	\$1,698	\$1,928	\$1,975	\$2,000	\$2,100	\$2,200	\$2,300
Supplies and Materials	\$579	\$534	\$641	\$620	\$630	\$640	\$650	\$650
Capital Outlay	\$1	\$30	\$8	\$5	\$30	\$30	\$5	\$30
Other Objects	\$131	\$129	\$119	\$130	\$130	\$130	\$130	\$130
<b>Total Expenditures</b>	<b>\$12,291</b>	<b>\$12,449</b>	<b>\$13,365</b>	<b>\$13,630</b>	<b>\$14,181</b>	<b>\$14,975</b>	<b>\$15,767</b>	<b>\$16,624</b>
<i>Net Total Other Financing Uses<sup>1</sup></i>	\$1	\$46	\$15	\$476 <sup>1</sup>	\$0	\$0	\$0	\$0
<b>Total Expenditures and Other Financing Uses</b>	<b>\$12,292</b>	<b>\$12,495</b>	<b>\$13,380</b>	<b>\$14,106</b>	<b>\$14,181</b>	<b>\$14,975</b>	<b>\$15,767</b>	<b>\$16,624</b>
<b>Performance Audit Recommendations-Net Savings</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,120</b>	<b>\$2,152</b>	<b>\$2,216</b>	<b>\$2,281</b>
<b>Result of Operations (Net)</b>	<b>\$4</b>	<b>\$415</b>	<b>(\$567)</b>	<b>(\$1,054)</b>	<b>\$1,020</b>	<b>\$101</b>	<b>(\$590)</b>	<b>(\$1,196)</b>
Beginning Cash Balance	\$394	\$399	\$814	\$247	(\$807)	\$213	\$314	(\$276)
Ending Cash Balance	\$399	\$814	\$247	(\$807)	\$213	\$314	(\$276)	(\$1,472)
Outstanding Encumbrances	\$174	\$210	\$107	\$164	\$164	\$164	\$164	\$164
Textbook and Instructional Materials	\$71	\$6	\$25	\$0	\$0	\$0	\$0	\$0
Bus Services	\$23	\$36	\$50	\$0	\$0	\$0	\$0	\$0
Total Reservations	\$94	\$42	\$75	\$0	\$0	\$0	\$0	\$0
<b>Fund Balance June 30 for Certification and unreserved balance</b>	<b>\$130</b>	<b>\$562</b>	<b>\$65</b>	<b>(\$971)</b>	<b>\$49</b>	<b>\$151</b>	<b>(\$439)</b>	<b>(\$1,636)</b>

<sup>1</sup> Represents a one-time payment to eliminate the negative Food Service Fund balance.

**Table 2-11** shows the individual performance audit recommendations that could help BLSD maintain a positive ending fund balance for the next two fiscal years. The forecast projections in **Table 2-10** will depend, in part, on the District’s ability to achieve the estimated cost savings. Therefore, monitoring the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information.

**Table 2-11: Summary of Financial Implications for the General Fund**

Recommendation	Estimated Annual Cost Savings	One-Time Costs	Estimated Annual Costs
<b>R3.2</b> Eliminate 2 administrator (site-based) FTEs	\$175,000		
<b>R3.3</b> Eliminate 17 regular education teacher FTEs	\$866,000		
<b>R3.4</b> Eliminate 7 ESP FTEs	\$476,500		
<b>R3.5</b> Eliminate 1 clerical FTE	\$38,000		
<b>R3.6 &amp; R3.7</b> Renegotiate health insurance plan design with provider and increase employee contributions for health care, vision, and dental to 15 percent <sup>1</sup>	\$311,000		
<b>R4.2</b> Eliminate 4 custodial FTEs	\$147,000		
<b>R4.5</b> Adopt a CMMS			\$1,000
<b>R4.6</b> Implement an energy conservation plan	\$29,000		
<b>R5.1</b> Reduce two buses and five runs	\$100,000		
<b>R5.1</b> Purchase routing software		\$9,500	\$2,000
<b>TOTAL RECOMMENDATIONS</b>	<b>\$2,142,500</b>	<b>\$9,500</b>	<b>\$3,000</b>

Source: AOS performance audit recommendations

<sup>1</sup> **R3.6** and **R3.7** are subject to negotiation. This figure reflects the combined effects of lower premiums, staffing reductions recommended in **human resources**, and the recommended 15 percent employee contribution.

**Table 2-12** shows the financial implications to performance audit recommendations that impact other funds.

**Table 2-12: Summary of Financial Implications for Other Funds**

Recommendation	Estimated Annual Cost Savings
<b>R3.6 &amp; R3.7</b> Renegotiate health insurance plan with provider and increase employee contributions for health care, vision, and dental to 15 percent for food service employees <sup>1</sup>	\$130,000
<b>R6.3</b> Eliminate 17.5 food service labor hours per day	\$69,000
<b>TOTAL RECOMMENDATIONS</b>	<b>\$199,000</b> <sup>2</sup>

Source: AOS performance audit recommendations

<sup>1</sup> **R3.6** and **R3.7** are subject to negotiation.

<sup>2</sup> This figure is not included in the District forecast as the cost savings will only impact the Food Service Fund.





# Human Resources

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## Background

This section of the performance audit focuses on the Bellaire Local School District (BLSD or the District) human resource (HR) functions; including staffing levels, compensation, employee benefits, negotiated agreements, HR management, board governance, and specialized programs. Where appropriate, recommendations were developed to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. The District's human resource functions have been evaluated against leading practices, industry benchmarks, operational standards, the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), and selected peer districts.<sup>1</sup> Leading practices and industry standards were drawn from the State Employment Relations Board (SERB), Government Finance Officers Association (GFOA), Kaiser Family Foundation (Kaiser), Society for Human Resource Management (SHRM), and National School Boards Association (NSBA).

### *Organizational Structure and Function*

BLSD does not have a department dedicated to performing HR functions. Instead, the Superintendent and Treasurer complete these activities. The Superintendent conducts employee recruitment and hiring, determines staffing levels, and leads the District's negotiating team during collective bargaining. The Treasurer maintains files on the salary and benefits for each employee, administers the District's health insurance benefits, and is a member of the District's negotiating team. Finally, the Treasurer's Office staff is responsible for reporting personnel data in the Education Management Information System (EMIS).

The Board of Education (the Board) regularly reviews and updates District-wide policies, which include policies governing personnel and management. Board policies also include a description of the roles and responsibilities of the Board, Superintendent, and Treasurer, as well as the process for communication among the Board, District staff, and the community (see **R3.9** for further assessment of Board policies).

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<sup>1</sup> The peers include: Ridgewood Local School District (Coshocton County), Logan-Hocking Local School District (Hocking County), Garaway Local School District (Tuscarawas County), Leipsic Local School District (Putnam County), New London Local School District (Huron County), Springfield Local School District (Mahoning County), East Guernsey Local School District (Guernsey County), Celina City School District (Mercer County), Southeast Local School District (Wayne County), and East Holmes Local School District (Holmes County).

## Staffing

**Table 3-1** illustrates the FY 2008-09 full-time equivalent (FTE) staffing levels at BLSD and the average of the peer districts as reported by the Ohio Department of Education (ODE) through EMIS. The FTEs in **Table 3-1** are presented on a per 1,000 student basis because staffing levels are partially dependent on the number of students served. Presenting staffing data in this manner eliminates variances attributable to the size of the peer districts.

**Table 3-1: Staffing Level Comparison (FTEs per 1,000 Students)**

	BLSD	Peer Average	Difference
<b>Students Educated</b>	<b>1334.1</b>	<b>1653.8</b>	<b>(319.7)</b>
<b>Administrative Personnel</b> <sup>1</sup>	8.4	7.0	1.4
<b>Office/Clerical Staff</b>	8.3	7.4	0.9
<b>Classroom Teachers</b> <sup>2</sup>	55.5	51.1	4.4
<b>Special Education Teachers</b>	17.2	9.7	7.5
<b>Educational Service Personnel</b> <sup>3</sup>	10.5	7.4	3.1
<b>Other Certificated Staff</b> <sup>4</sup>	4.5	4.8	(0.3)
<b>Teacher Aides</b>	12.0	7.7	4.3
<b>Other Technical/Professional Staff</b> <sup>5</sup>	0.8	1.2	(0.4)
<b>Other Student Service Staff</b> <sup>6</sup>	1.5	2.4	(0.9)
<b>Operations Personnel</b> <sup>7</sup>	45.2	28.3	16.9
<b>Total Staffing</b>	<b>163.8</b>	<b>126.9</b>	<b>36.9</b>

**Source:** EMIS data as submitted to ODE for FY 2008-09. BLSD data was verified and adjusted to reflect the most up-to-date information available at the time of the audit.

**Note:** numbers may vary due to rounding

<sup>1</sup> Includes central and site-based administrators, directors, and coordinators, as well as personnel responsible for the planning, management, evaluation, and operation of the District.

<sup>2</sup> Includes regular and vocational teachers and permanent substitutes.

<sup>3</sup> Includes ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

<sup>4</sup> Includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

<sup>5</sup> Includes library staff, computer support staff, and other professional staff, not including librarians.

<sup>6</sup> Includes student services staff less counselors, registered nurses, social work staff, and visiting teachers.

<sup>7</sup> Includes facilities, transportation, food service, and other miscellaneous staff.

As illustrated in **Table 3-1**, BLSD's staffing levels are higher than the peers on a per 1,000 student basis in all areas, with the exception of other certificated staff, other technical/professional staff, and other student services. BLSD's staffing is higher on a per 1,000 student basis when compared with the peer averages in administrators, office/clerical, classroom teachers, special education teachers, educational service personnel (ESP), and teacher aides. The District also employs more personnel in the area of operations. AOS compared staffing levels in this area separately, in **facilities**, **food service**, and **transportation**, using efficiency and workload measures and industry standards.

### Compensation

**Table 3-2** shows the District's FY 2008-09 average salaries in comparison with the peer district averages. Beginning wages, years of service, negotiated wage increases, step increases, other personnel benefits, and in some cases, educational levels attained by the personnel within a category, all influence average salaries.

**Table 3-2: Average Salary Comparison**

	<b>BLSD</b>	<b>Peer District Average</b>	<b>Percent Difference</b>
<b>Administrative Personnel</b>	\$64,987	\$69,331	(6.3%)
<b>Office/Clerical Staff</b>	\$19,047	\$27,743	(31.3%)
<b>Classroom Teachers <sup>1</sup></b>	\$46,125	\$50,140	(8.0%)
<b>Special Education Teachers</b>	\$38,358	\$48,824	(21.4%)
<b>Educational Service Personnel <sup>2</sup></b>	\$48,539	\$49,930	(2.8%)
<b>Other Certificated Staff <sup>3</sup></b>	\$50,842	\$49,618	2.5%
<b>Teacher Aides</b>	\$15,258	\$15,858	(3.8%)
<b>Other Technical/Professional Staff <sup>4</sup></b>	\$31,094	\$17,622	76.4%
<b>Other Student Service Staff <sup>5</sup></b>	\$56,935	\$19,353	194.2%
<b>Operations Personnel</b>	\$17,679	\$20,488	(13.7%)

**Source:** FY 2008-09 EMIS data as submitted to ODE. BLSD data was verified and adjusted to reflect the most up-to-date information available at the time of the audit.

<sup>1</sup> Includes regular and career-technical teachers and permanent substitutes.

<sup>2</sup> Includes ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

<sup>3</sup> Includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

<sup>4</sup> Includes library staff, computer support staff, and other professional staff.

<sup>5</sup> Includes student services staff, not including counselors, registered nurses, social work staff, or visiting teachers.

**Table 3-2** indicates that average salaries at the District are generally below the average salaries reported by the peer districts. The only two classifications where average salaries are significantly higher than the peer districts are other technical/professional staff and other student services, which include only three employees at the District. Other technical/professional staff includes a mix of positions which can have relatively low salaries (e.g., library aides) or relatively high salaries (e.g., computer technicians), which can make salary comparisons among districts more difficult. The only employee in this category at the District is the District's computer programmer. The other student services category is similar, as it includes a variety of positions, including professional staff (e.g., psychologists) and technical staff (e.g., attendants). Moreover, other student services are more likely than other categories to include privately contracted services, services shared with other districts, or services obtained through an educational service center. Thus, staffing levels may not provide accurate comparisons among districts as to the level of personnel actually working in this category. BLSD only reported two FTEs in this category, a speech and language therapist and a psychologist.

Although the majority of BLSD's average salaries are below the peer districts, the District pays a portion of the retirement contributions of all employees, a provision first negotiated in the late 1980s as a way to provide an increase in compensation without a wage increase. Of the 10 percent employee retirement contribution, the Board pays 4 percent for classified employees and 7 percent for certificated employees, with the remaining portions being paid by the employees through salary reductions. The Board pays the entire 10 percent employee share for administrators. Including retirement pickup in employees' average salary results in an increase of 4 to 10 percent, placing the average salaries of administrators, educational service personnel, and teacher aides above the peers. It was determined, though, that the District's salary schedules are in line with the salary schedules in effect at other Belmont County school districts, even after factoring in the additional retirement benefit.<sup>2</sup>

Moreover, while the pickup of retirement contributions is expensive, the Treasurer stated that the District is mindful of the compounding effect of the provision, and factors this benefit in when calculating negotiated wage increases. The Treasurer also prepares annual statements of total compensation for employees, including salary, retirement, insurance, leave usage, and other benefits. Providing total compensation information to employees is considered a recommended practice.

### *Employee Benefits*

BLSD provides employees with a comprehensive health insurance benefits package. There is one medical plan offered (an HMO) and employees can choose either single or family coverage. BLSD is in a health insurance consortium through the Ohio Mid-Eastern Regional Education Services Agency (OME-RESA). Through this service, the District has access to an insurance broker who works with the District to determine premiums, or funding rates, for the negotiated plan design. If employees elect not to participate in the District-provided health insurance plan, the negotiated agreements include opt-out provisions, through which employees receive annual incentive payments of up to \$1,200. In addition to medical and prescription drug coverage, the District provides dental, vision, and life insurance at no cost to employees (see **R3.6** and **R3.7**).

A review of the District's workers' compensation program indicates that while the District was penalty rated and required to pay higher rates as the result of an employee claim, it participated in available discount programs and became eligible for a group discount for the 2009 rating year. Participation in a group rating will decrease the District's premium rate from the previous year by 73.0 percent.

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<sup>2</sup> Districts include Barnesville Exempted Village School District, Bridgeport Exempted Village School District, Martins Ferry City School District, Shadyside Local School District, St. Clairsville-Richland City School District, Switzerland of Ohio Local School District, and Union Local School District.

### *Negotiated Agreements*

BLSD has negotiated agreements with the following collective bargaining units:

- **Bellaire Education Association/Ohio Education Association (OEA)/National Education Association (NEA):** Membership in this collective bargaining unit includes all regular, special education, and career-technical teachers, as well as other professional certificated personnel, including guidance counselors, librarians, and school nurses. The term of this contract is September 1, 2007 through August 31, 2009.
- **Ohio Association of Public School Employees/AFSCME Local 4/AFL-CIO, its Local #250:** Membership in this collective bargaining unit includes maintenance and custodial staff, transportation personnel, food service employees, clerical staff, and aides. Those excluded from the agreement include administrative and supervisory personnel, and all central office employees. The term of this contract is July 1, 2008 through June 30, 2010.

AOS performed a review of each negotiated agreement to identify any unique or costly provisions within the agreement, as well as to compare standard provisions with the ORC and OAC. Within the areas examined, provisions related to holidays and vacation, as well as sick leave accrual and severance pay, were found to be in excess of State minimum requirements (see **R3.8**).

### *Specialized Programs*

The District's special education program assists students with special needs. In addition to serving its own students, the District also provides services to students from surrounding school districts. In FY 2008-09, BLSD served 31 special needs students from surrounding school districts. This increases the number of special education students served at the District and the teachers and aides required to instruct them. Nearly 20 percent of the students served at BLSD are special education students, compared with an average of 11 percent for the peers. While the District is serving a greater number and larger percentage of students than the peer districts and reporting higher total costs (shown in **financial systems**), the District spent 7.6 percent less per special education student than the peers. If the District's per student expenses were the same as the peers, the District would have incurred approximately \$241,000 in additional expenses in FY 2007-08. The District controls its special education expenditures using recommended cost containment strategies, such as focusing resources for early intervention and prevention, placing special needs students in regular education classrooms when possible, pooling resources with surrounding school districts, and taking advantage of the limited services offered through the Belmont County ESC.

Moreover, through the District's school improvement process, BLSD monitors the delivery of special needs services by evaluating its programs and providing teachers professional development in the latest techniques and educational practices. The District also reviews student individual education plans (IEP) annually to ensure the appropriateness of services provided to each student.

## **Audit Objectives for the Human Resources Section**

The following performance objectives were reviewed within this section:

- Is the District's current allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing Districts, State averages, and industry practices?
- How does the cost of benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and best practices?
- Does the District effectively address human resource management?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximize resources?

BLSD was comparable to the peers or met recommended practices in certificated staffing, teacher aide staffing, special education staffing, compensation, life insurance benefits, and special education cost-containment strategies.

## Recommendations

- R3.1 BLS D should develop a formal staffing plan to address current and future personnel needs. A staffing plan will help ensure the District is proactively addressing its staffing needs and aligning them with the District’s educational goals and financial condition. This is particularly important considering the District’s declining enrollment and large special needs population.**

The District does not have a formalized, Board-approved staffing plan outlining a strategy for staffing or personnel decisions. Also, the District does not assess long-term enrollment projections to determine future staffing level needs. Instead, the Superintendent uses historic staffing levels as a guide for determining future staffing needs. Upon the retirement of a staff member, the District closely examines each position to identify opportunities to eliminate the position or consolidate job duties.

*Strategic Staffing Plans* (SHRM, June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making within an organization. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) notes the most important question for any organization is what type of workforce it will need to implement its strategic mission. By answering this question, the organization can focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

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

Similar to Tulsa Public Schools, Cincinnati CSD (Hamilton County) has developed a staffing plan linking staffing decision with the District’s student based budgeting system. The plan works to incorporate State requirements, contractual agreements, available resources, and educational goals, and serves as a guide to staffing educational and support staff at each building. Also, Lakota Local School District (Butler County) has developed a formal staffing plan which aides the District in determining classified staffing needs based on enrollment and workload measures.



The District’s limited resources and experienced administrative team have masked the need for a staffing plan. However, a formal plan would assist the District in adjusting staffing levels to address declining student enrollment and anticipated resources, while aligning any staff reductions with the District’s goals and values. This is especially important to ensure appropriate staffing for the District’s large special education population. Moreover, implementing a more formal plan would provide the District with a resource to communicate its staffing priorities and goals with the community and ensure continuity and the transmission of institutional knowledge in the event of turnover among top administrators.

**R3.2 BLSD should consider eliminating 2.0 FTE site-based administrative positions to achieve a level more comparable to the peers. The District should review the funding sources for these positions to ensure their elimination would have a positive impact on the General Fund.**

Table 3-3 compares central and site-based administrative staffing levels with the ten peer district averages.

**Table 3-3: Administration Staffing Comparison**

	<b>BLSD</b>	<b>Peer Average</b>	<b>Difference</b>
Central Administrators (FTE)	5.3	6.1	(0.8)
Site-Based Administrators (FTE)	6.0	5.3	0.7
<b>Total FTE Administrators</b>	<b>11.3</b>	<b>11.3</b>	<b>(0.1)</b>
<hr/>			
Total Students	1,334	1,654	(320)
Central Administrators per 1,000 Students	3.9	3.7	0.3
Site-Based Administrators per 1,000 Students	4.5	3.3	1.2
<b>Total Administrators per 1,000 Students</b>	<b>8.4</b>	<b>7.0</b>	<b>1.4</b>
<b>Total Administrators Above Peer Average</b>			<b>1.9</b>

Source: FY 2008-09 EMIS data as submitted to ODE.

Note: numbers may vary due to rounding.

As illustrated in Table 3-3, BLSD employs 1.4 more administrator FTEs per 1,000 students than the peer average. Specifically, site-based administrators at BLSD exceed the peer district average by 1.4 FTEs per 1,000 students, which equates to 1.9 FTE excess site-based administrators at BLSD.

The District has six site-based administrators, which includes a principal and an assistant principal at each school. None of the peer districts employ assistant principals at the elementary schools, and only three employ assistant principals at the middle schools. Moreover, none of the seven other Belmont County districts employs assistant principals at the elementary or middle schools. It was also determined that student-to-administrator ratios and teacher-to-administrator ratios at BLSD were lower than the peer and other Belmont County districts groups, which are additional signs of overstaffing in this

category. A reduction of two assistant principal positions would bring the District in line with the peer district average, and reduce salary and benefit costs.

*Financial Implication:* By eliminating 2.0 FTE building administrator positions, BLSD could save approximately \$175,500 annually in salaries and benefits.

**R3.3 Based on its financial condition, BLSD should consider eliminating 17.0 regular education teacher positions. A reduction of 17.0 FTEs would bring the District within 20 percent of State minimum requirements. If BLSD is unable to address its projected financial deficit through other means, it may need to reduce educational staff to State minimums (up to 25.0 FTEs).<sup>3</sup>**

However, the District should weigh decisions to reduce the regular teacher staffing level against the impact the reduction may have on educational outcomes. BLSD should consider its goals, enrollment, and financial condition, as well as its certificated collective bargaining agreement and State requirements for minimum class sizes when identifying potential teacher reductions.

Table 3-4 examines the number of regular teachers at the District in comparison with the peer districts and State minimum staffing requirements.

**Table 3-4: Regular Teacher Staffing Comparison**

	BLSD	Peer Average	Difference
Regular Teachers	73.0	77.7	(4.7)
Regular Student Population	1,011.1	1,361.7	(350.6)
Regular Student to Teacher Ratio	13.9	17.5	(3.6)
<b>Total Regular Teachers Above/(Below) Peer Districts</b>			<b>15.2</b>
<b>Regular Teachers – Locally Funded<sup>1</sup></b>			<b>66.0</b>
<b>State Minimum Required Teachers</b>			<b>40.4</b>
<b>Teachers Above State Minimum Requirement</b>			<b>25.6</b>

Source: FY 2008-09 EMIS data as submitted to ODE.

<sup>1</sup> For the purpose of computing State minimum requirements for regular student to teacher ratios, ORC § 3317.023 only includes teachers who are providing direct instruction to pupils, excluding grant funded positions, educational service personal, vocational, and special education teachers.

Table 3-4 indicates the regular student-to-regular teacher ratio at BLSD is below the peer district average. Achieving the peer average student-to-teacher ratio of 17.5 at BLSD would allow for a reduction of 15.2 FTE regular teachers. The exclusion of grant funded regular teaching positions would permit a reduction of 8.2 FTE regular teachers.

<sup>3</sup> Adopting State minimums would result in annual savings of about \$1.4 million.

As the District's financial condition requires it to make additional staffing reductions beyond the levels of the peers, **Table 3-4** also depicts reductions the District could make to reduce regular teaching staff to State minimum staffing requirements. According to OAC § 3301-35-05:

“The ratio of teachers to students district-wide shall be at least one full-time equivalent classroom teacher for each twenty-five students in the regular student population as defined in section 3317.023 of the Revised Code...The ratio of teachers to students in kindergarten through fourth grade on a district-wide basis shall be at least one full-time equivalent classroom teacher per twenty-five students in the regular student population.”

Using this ratio, BLSD could reduce up to 17.0 FTE regular teachers and still be 20 percent above State minimum requirements.

*Financial Implication:* By eliminating 17.0 FTE classroom teacher positions, BLSD could save approximately \$866,000 annually in salaries and benefits.

**R3.4 BLSD should consider eliminating 7.0 FTE educational service personnel (ESP) positions to reduce personnel expenditures. A reduction of 7.0 FTEs would bring the District within 20 percent of State minimum requirements.**

According to ORC § 3317.023, a minimum of five FTE educational service personnel shall be employed district-wide for each 1,000 students in the regular student population. Educational service personnel shall be assigned to at least five of the eight following areas: counselor, librarian/media specialist, school nurse, visiting teacher, social worker, elementary art, elementary music, and elementary physical education.

**Table 3-5** displays staffing levels for ESPs compared with the peer districts on both an FTE and a per 1,000 student basis.

**Table 3-5 Educational Service Personnel (ESP) Staffing Analysis (FTEs)**

	<b>BLSD</b>	<b>Peer Average</b>	<b>Difference</b>
ESP Teachers	8.0	7.64	0.4
Counselors	2.0	2.73	(0.7)
Librarians / Media Specialists	1.0	1.05	(0.1)
School Nurses	2.0	0.50	1.5
Social Workers	1.0	0.26	0.7
Visiting Teachers	0.0	0.0	0.0
<b>Total Educational Service Personnel (FTE)</b>	<b>14.0</b>	<b>12.18</b>	<b>1.8</b>
<hr/>			
Total Students	1,334	1,654	(320)
<b>Total ESPs per 1,000 Students</b>	<b>10.6</b>	<b>7.4</b>	<b>3.2</b>
<b>Total ESPs Above/(Below) Peer Districts</b>			<b>4.3</b>
Total District ESPs			<b>14.0</b>
State Minimum Required ESPs			<b>5.1</b>
<b>ESPs Above State Minimum Requirement</b>			<b>8.9</b>

**Source:** FY 2008-09 EMIS data as submitted to ODE.

**Table 3-5** shows that BLSD exceeded the peers by 4.3 FTE and was 8.9 FTEs above State minimum requirements in FY 2008-09. Based on the regular student population at the District, BLSD could reduce up to 7.0 FTE and still be 20 percent above the ORC requirement for educational service personnel.

By reducing the number of ESPs, the District will bring its per 1,000 student ratio closer to State minimum standards while providing financial savings to the District. Reductions to State minimums, if needed, would have an impact on the District's programs and should be carefully evaluated by the District before implementation.

BLSD may be able to identify reductions in other areas, such as clerical (see **R3.5**) and administration (see **R3.2**), which would reduce the need to eliminate teaching (see **R3.3**) and ESP (see **R3.4**) personnel. Also, if reductions occur through attrition, BLSD may be able to limit the number of reductions, as greater savings would be generated through the eliminations of positions at higher rates of pay.

*Financial Implication:* By eliminating 7.0 FTE educational service personnel, BLSD could save approximately \$476,000 in salaries and benefits.

**R3.5 BLS D should eliminate at least 1.0 FTE clerical position to reduce personnel expenditures and bring staffing levels in line with the peer districts.**

Table 3-6 displays staffing levels for office/clerical staff compared with the peer districts on a total FTE and a per 1,000 student basis.

**Table 3-6: Office/Clerical Staffing Analysis (FTEs)**

	BLS D	Peer Average	Difference
Total Office/Clerical Staff	11.0	12.4	(1.4)
Total Students	1,334	1,654	(320)
Total Office/Clerical Staff per 1,000 Students	8.3	7.4	0.9
<b>Total Office/Clerical Staff Above/ (Below) Peer Average</b>			<b>1.2</b>

Source: FY 2008-09 EMIS data as submitted to ODE.

Table 3-6 shows that BLS D’s clerical staffing levels are 1.2 FTEs above the peer average. Employing more clerical staff diverts resources from educational programming which directly serves students. A reduction of one clerical position would bring BLS D in line with the peer district average and reduce salary and benefit costs at the District.

*Financial Implication:* By eliminating 1.0 FTE clerical positions, BLS D could save approximately \$38,000 annually in salaries and benefits.

**R3.6 BLS D should renegotiate the design of its health insurance plan with its bargaining units to include a higher level of cost sharing, a wellness program, and disease management. Redesigning the plan would help ensure that the premium and benefit levels are cost effective for the District and fair to its employees.**

Table 3-7 displays the District’s premiums for FY 2008-09 in comparison with the Kaiser Family Foundation’s (Kaiser) annual survey.

**Table 3-7: Health Insurance Premium Comparison<sup>4</sup>**

Type of Coverage	BLS D	Kaiser Average (State and Local Government - HMO)	Variance	Percent Variance
Single	\$490	\$419	\$71	16.8%
Family	\$1,269	\$1,088	\$181	16.7%

Source: BLS D and Kaiser Family Foundation 2008 report.

<sup>4</sup> AOS often includes a comparison of client health insurance premiums to averages compiled by SERB in the annual *Cost of Health Insurance in Ohio’s Public Sector*, as it contains detailed information about health insurance costs in Ohio’s public sector. However, the most recent report available is the 2007 Annual Report, and, as such, the information is out of date. Auditors also use the Kaiser Family Foundation’s annual survey for a comparison of premium rates and, because of the outdated nature of the SERB data, only the Kaiser information was used in the analysis. In 2007, the SERB Statewide averages for single and family health insurance premiums were \$421 and \$1,090, respectively. Average premiums for Southeast Ohio were \$512.85 and \$1,302.68 respectively.

**Table 3-7** illustrates that the District's rates exceed the Kaiser average for both single and family coverage. One strategy by which employers can reduce premiums is through modifications to the design of their insurance plans.

The District's plan design was examined and compared with SERB's *2007 Report on the Cost of Health Insurance in Ohio's Public Sector*, the Kaiser *2008 Annual Survey on Health Insurance Benefits*, and the Ohio Education Association's (OEA) *2008 Survey of School District and ESC Health and Life Insurance Plans*. The District has provisions that are in line with or better than industry standards, such as annual out-of-pocket maximums. However, it was determined the District's co-payments for physician visits and prescription drugs were below industry standards. For example, the District's two-tiered prescription drug plan requires co-payments of \$5 and \$10, while Kaiser reported that 70 percent of plans employed three-tiered prescription drug plans, and the average co-payments were \$10, \$26, and \$46 respectively.<sup>5</sup> Additionally, among plans that used only two tiers, the average reported co-payments were \$11 and \$24. The OEA reported that a plurality of Districts implemented three-tiered plan designs, with the average co-payments being \$10, \$20, and \$30 for a 30-day supply.

*Health Care Cost Containment* (GFOA, 2004) recommends that governments work to contain health care costs. As a preliminary step in establishing cost containment programs, governments should perform cost analyses that use historical trend data on costs and utilization to highlight areas for remedial action. GFOA recommends the following cost containment practices:

- **Plan Design:** Incremental changes include adjusting co-payment and co-insurance levels to influence individual behavior, establishing criteria for eligibility, and evaluating managed care organizations such as PPOs or consumer driven health plans.
- **Vendor Management:** Management of vendors encompasses activities designed to operate a plan more effectively, by making optimal use of health care vendors. This includes audits of claims, positive re-enrollment, and periodic re-bidding of vendors.
- **Individual Health Management:** Targeted efforts to encourage lifestyle changes such as wellness programs, financial incentives for lifestyle modification,

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<sup>5</sup> Cost sharing tiers generally are associated with a health plan placing a drug on a formulary or preferred drug list. The formulary or drug list generally classified drugs as first-tier drugs, often called generics; second-tier drugs, often called preferred brand name; and third-tier drugs, often called non-preferred brand-name. More recently, some plans have created a fourth tier of drug cost sharing, which may be used in some cases for lifestyle drugs or expensive biologics.

education on health care matters, and making provider costs more visible to participants may be effective financially.

- **Aggregation:** Evaluate whether or not to aggregate the government's purchasing power through the formulation of health care insurance pools or participation in state master agreements.
- **Cost Sharing:** Implement cost sharing through joint payment of premiums, co-payments, and co-insurance.

Similarly, the Ohio School Employees Health Care Board, whose mission is to "assist all school districts to lower school district health care expenditures without reducing benefits and shifting costs; and assist school districts in improving the health status of its employees," adopted administrative rules that work to combat the rising cost of health care. OAC § 3306-2-03 requires any employee health care plan to include a wellness or healthy lifestyle program, a disease management program, and access to providers offering superior health care for complex medical conditions. Plans must also conduct periodic dependent eligibility audits. OAC § 3306-2-04 and § 3306-2-05 require health plan sponsors to certify compliance with these requirements and to submit annual reports to the Ohio School Employees Health Care Board describing the progress made in reducing health expenditures and improving the health status of employees.

Upon the expiration of the District's existing negotiating agreements, BLSD will be required to incorporate these practices in future designs of its health insurance plans. Modest changes to the plan design now would yield savings to the District, and implementation of other cost containment techniques, such as a wellness plan and disease management, will assist the District in reducing the total cost of providing health insurance.

*Financial Implication:* Including the reductions in staffing recommended in **R3.3, R3.4, R3.5, R3.6, R4.4, R5.1, and R6.3**, the District could see a cost savings of \$177,000 to the General Fund annually through redesigning its health care plan to be in line with Kaiser reported premium averages. Furthermore, the District could see a cost savings to other funds of \$82,000 per year. This takes into consideration that 32 percent of the District's employees are paid from other funds.

However, with no changes in staffing, the District could see increased cost savings in the redesigning its health care plan of \$232,500 to the General Fund and \$97,000 to other funds.

**R3.7 During future negotiations, the District should negotiate a 15 percent employee share for health insurance premiums (including dental and vision) for all bargaining and non-bargaining unit staff. This level would be in line with SERB averages and below the Kaiser average. Increasing employee contributions would result in savings for the District by reducing its share of the increasing cost of health insurance.**

Employees in the certificated bargaining unit contribute 10 percent toward the monthly cost of health insurance premiums, while classified employees contribute 3 and 2 percent for single and family plans, respectively. According to Kaiser, the average employee contributions for state and local government employees enrolled in HMOs are 12 and 19 percent for single and family plans, respectively. Contribution rates increase to 16 percent for single coverage and 27 percent for family coverage when the average includes all employers surveyed by Kaiser. In 2007, SERB found that the Statewide premium contribution rates for government employees in Ohio were 12 and 13 percent, respectively.

The District also provides dental and vision insurance at no cost to employees. SERB reports average employee shares of 17.8 and 19.4 percent for dental and vision coverage, respectively.<sup>6</sup> Negotiating employee contributions of 15 percent would help the District manage increases in insurance costs and would support its efforts to align District health care plans with other public employers in the region.

Based on the reduced staffing levels in **R3.3, R3.4, R3.5, R3.6, R4.4, R5.1, and R6.3**; increasing employee health care, vision, and dental employee contributions to 15 percent for all employees could save BLSD approximately \$135,000 annually in its General Fund, and \$62,500 in all other funds.<sup>7</sup> However, with no changes in staffing, the District could see cost savings of \$165,500 in the General Fund, and \$69,000 in all other funds.

Furthermore, if the District increased employee contributions in conjunction with strategies to reduce monthly health insurance premium rates (see **R3.6**), and recommended staffing reductions, the District could reduce expenditures by as much \$295,500 in its General Fund, and \$137,000 in other funds. Alternatively, if there were no changes to staffing but the District increased employee contributions in conjunction with strategies to reduce monthly health care premium rates, BLSD could see an increase in cost savings of \$377,000 to the General Fund and \$157,000 to all other funds.

*Financial Implication:* Assuming implementation of **R3.6** and **R3.7** simultaneously, and a reduction in staffing based on recommendations in this report, annual cost savings of

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<sup>6</sup> SERB reports insurance premiums and employee contributions in terms of single and family plans. As BLSD's dental and vision premiums are the same, regardless of single or family coverage, AOS calculated a weighted average of SERB employee contributions, based on the number of single and family plans at BLSD.

<sup>7</sup> This takes into consideration that 32 percent of the District's employees are paid from other funds.



\$295,500 to the General Fund could be achieved. This amount is factored into **Table 2-12** in **financial systems** starting in FY 2009-10.

**R3.8 BLSD should renegotiate certain provisions within its certificated and classified employee negotiated agreements that are above industry standards and State minimum requirements. This would help the District control costs, reduce its forecasted financial deficit, and control its future financial liability. Additionally, the District should seek to renegotiate contract provisions that impair its right and responsibility to determine matters of inherent managerial policy. Finally, BLSD should examine alternatives to high sick leave accrual to ensure its leave use incentive policy has the maximum financial benefit to the District.**

Certain provisions within the District's certificated and classified agreements were compared with State minimum standards and leading practices for holidays, vacation leave, sick leave accrual amounts, severance payouts, and sick leave incentives. The following areas in BLSD's certificated and classified contracts exceeded benchmark provisions.

**Holidays:** The District's classified agreement provides employees with paid holidays in excess of State minimums. According to ORC § 3319.087, all regular non-teaching school employees working 11 or 12 months are entitled to seven holidays, and employees working 9 or 10 months are to receive six paid holidays. BLSD's 11- and 12-month employees receive 13 paid holidays, and 9- and 10-month employees receive 8 paid holidays.

**Vacation Leave:** The District's classified agreement provides employees with vacation leave in excess of State minimums. According to ORC § 3319.084, non-teaching school employees are entitled to 2 weeks of vacation after 1 year of service, 3 weeks after 10 years, and 4 weeks after 20 years. BLSD's classified employees receive 2 weeks of vacation after 1 year of service, 3 weeks after 7 years, 4 weeks after 14 years, and 5 weeks after 21 years. Paid vacation in excess of State minimums represents a potential for decreased productivity.

**Sick Leave Accrual/Severance Payout:** All full-time employees at the District accrue sick leave at a rate of 15 days annually. Certificated employees are able to accumulate a maximum of 275 days, while classified employees are limited to a maximum of 260 days. These provisions exceed the requirements of ORC § 3319.141, which states that employees can accrue up to 120 days, with the allowance of additional days approved by the local board of education.

To reduce sick leave usage, BLSD has implemented incentives for both certificated and classified employees. Classified employees receive \$125 per quarter for taking two or

fewer days of leave. In addition, nine-month employees who use seven or fewer leave days, and twelve-month employees who use ten or fewer days of leave receive an additional \$100. This equates to a maximum possible benefit of \$475 for nine-month employees and \$600 for twelve-month employees. Certificated employees earn \$40 for taking three or fewer days of sick leave during the year, up to \$120 for not using any sick leave. Additionally, certificated employees receive \$500 when neither sick leave nor personal leave is used during the school year. However, without an annual buy-back or leave conversion program, these incentives inadvertently increase leave accrual and result in a higher payout rate upon retirement.

Members of the certificated bargaining unit are eligible for a payout at retirement of 35 percent of accrued sick leave, up to a maximum of 270 days, which equates to 94.5 days of paid leave. Classified employees are eligible for the same 35 percent payout of accrued sick leave, up to 260 days, or 91 days of paid leave. ORC § 124.39 requires a payment upon retirement of 25 percent of accrued but unused sick leave, up to a maximum of 120 days total, for a leave payout of 30 days. The benefits provided to District employees are three times as much as the requirement outlined in the ORC.

While sick leave incentives and the higher accrual levels present potential financial liabilities for the District in the form of quarterly and annual incentive payments, as well as increased severance payments to retiring employees, these provisions have resulted in reduced sick leave use by employees. A comparison with similar State-level bargaining units indicated that BLSD employees are taking fewer days than the State average. Certificated employees took an average 5.6 days of sick leave for FY 2007-08 (3.9 fewer than the State average), while classified employees only took an average of 1.6 days of leave (6.1 days below the State average). The low level of sick leave usage indicates employees are taking advantage of leave incentives. In FY 2007-08, 134 employees had leave balances of 100 days or more, and 80 of those employees had sick leave balances exceeding 200 days. In total, the District's sick leave liability was nearly 32,000 days of sick leave, or approximately 140 days per employee. In FY 2007-08, the District paid out more than \$50,000 in employee severance pay and leave incentives.

While the District provides incentives to discourage leave usage, it is costly for the District. Allowing employees to cash out their leave each year at a certain percentage reduces the District's long-term liability upon the retirement of employees but increases immediate costs. For example, one District employee who retired in FY 2007-08 received more than \$28,000 in severance pay. In contrast, capping sick leave accrual at 120 days and a 25 percent payout would have resulted in only \$8,500 in severance pay for the same employee.

*Sick Leave Abuse: A Chronic Workplace Ill* (American Society for Public Administration (ASPA), 2002) found that many organizations have implemented sick leave incentive

programs and policies to discourage absenteeism and reward employees who maintain excellent attendance records. However, critics of sick leave incentive programs suggest that incentives try to bribe employees to act in certain ways, rather than make them want to exhibit the behaviors voluntarily. Another common objection is that such programs indirectly punish employees who have been out of work legitimately.

Adjusting contract provisions can be difficult for the District since it will have to achieve agreement with its bargaining units and agree upon acceptable provisions. However, if the District was able negotiate adjustments to its bargaining agreements, it maybe able to see future savings that could reduce its deficit.

**R3.9 The Board should implement a policy requiring performance evaluations for the Superintendent and Treasurer, as well as a self-evaluation of the Board's performance and effectiveness. Doing so will allow for positive feedback regarding the strengths of the District and its top administrators and highlight areas for improvement.**

The District has policies that provide for annual performance evaluations of the Board, Superintendent, and Treasurer. According to the Board's policies, the Superintendent's and Treasurer's evaluation processes are to occur at least annually. The policy manual also includes an appraisal process and instrument for Board self-evaluations. Areas for evaluation include Board relationships with District administration and staff, the community, and other governing bodies, as well as fiscal management, strategic planning, and policy development. Although the District has policies in place that are in line with the recommended practices, BLSD has not used the instrument for Board self-evaluation, nor is it complying with its policies for annual evaluations of the Superintendent and Treasurer.

*Becoming a Better Board Member* (NSBA, 2006) recommends that, in addition to evaluating operations by assessing public opinion, board members engage in regular self-evaluations to ensure that they continue to exercise the most effective leadership possible. While there is no single correct method of board evaluation, NSBA provides standards that school board veterans see as essential evaluation elements and outcomes. These standards recommend that the evaluation cover the entire board (not individuals) and occur on an annual basis. Each board member should complete an evaluation form independently, then the board as a whole should compare and discuss the results. The evaluation should assess both strengths and weaknesses, be based on board goals (not district goals, though they may be related), and include establishing goals and strategies for improving board performance.

NSBA also outlines a process for the evaluation of top administrators that includes defining district goals in conjunction with the duties of the position, and evaluating the

achievement of those goals using performance indicators such as timelines and costs. Areas of evaluation include management and leadership, planning and assessment, organizational management, communication with the community, and professionalism. The District's own policies for the evaluation of the Superintendent and Treasurer are based on objectives and performance using established job responsibilities.

Without an effective evaluation process, the District is not able to determine areas of strength or weakness, and therefore is unable to identify areas of focus for improvement for all parties. Evaluations of the Superintendent and Treasurer by the Board help strengthen the relationships, assess strengths and weaknesses, provide documentation, serve as a basis for reinforcing good work, and measure job performance. In addition to identifying areas for improvements, the Board self-evaluation serves as a way to monitor progress and achievement of Board goals and help identify future goals and priorities the Board should work toward in subsequent years. Implementation of regular evaluations will assist the District in ensuring a desired level of performance of top administrators and the implementation of District goals.

## Financial Implications Summary

The following table is a summary of estimated annual cost savings. Implementing some of the recommendations would require agreement from the affected collective bargaining units.

### Financial Implications for Human Resources

Recommendations	Estimated Annual Cost Savings <sup>1</sup>
<b>R3.2</b> Reduce 2.0 FTE assistant principals.	\$175,500
<b>R3.3</b> Reduce 17.0 FTE classroom teacher positions.	\$866,000
<b>R3.4</b> Reduce 7.0 FTE ESP positions.	\$476,500
<b>R3.5</b> Reduce 1.0 FTE clerical position.	\$38,000
<b>R3.6</b> and <b>R3.7</b> Renegotiate health insurance plan design to reduce premium costs and increase employee contributions for health insurance (including dental and vision) to 15 percent. <sup>2</sup>	\$295,500
<b>Total Estimated Savings</b>	<b>\$1,851,500</b>

Source: AOS recommendations

<sup>1</sup> Savings based on implementation in FY 2009-10.

<sup>2</sup> Implementation is subject to negotiations and assumes recommended personnel reductions.

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# Facilities

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## Background

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

### *Summary of Operations*

BLSD has three school buildings: an elementary school (grades kindergarten to 4), a middle school (grades 5 through 8), and a high school (grades 9 through 12). The District also maintains an administrative building, a bus garage, a field house, and other smaller buildings associated with the athletic complex. The District constructed new middle and elementary schools in 2001, and in 2003, the high school was renovated. Both projects were conducted through the Ohio School Facilities Commission (OSFC) at a total project cost of \$30 million (\$26 million State, and \$4 million local through bonds). BLSD's overall enrollment has decreased an average of 1.7 percent each year over a 10-year period. The District's voters approved a permanent improvement levy (PI) in 2006 for capital improvements, which generates \$324,000 annually.

The District does not perform enrollment projections. However, based on historical enrollment for the last ten years, the District could continue to see a gradual decline of 1 percent each year, losing an average of about 27 students per school year. Since BLSD has only three school buildings, the District's enrollment would have to decline substantially before the District could consider closing part of a building.

### *Key Statistics*

Key statistics related to BLSD's maintenance and operations (M&O) are presented in **Table 4-1**. Also included in the table, and throughout the report, are the results of the *Maintenance and Operations Cost Study* (AS&U)<sup>2</sup> and benchmarks established by NCES.<sup>3</sup>

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

<sup>2</sup> The *Maintenance and Operations Cost Study* is an annual publication. This report draws on AS&U publications from the last five years.



**Table 4-1: Key Statistics and Indicators FY 2008-09**

Buildings	
High School	1
Elementary School	1
Middle School	1
<b>Total School Buildings</b>	<b>3</b>
Custodial Operations	
Total Square Feet Cleaned	302,212
BLSD Square Feet per Custodial FTE	20,842
NCES Planning Guide Custodial Staffing Benchmark	29,500
Maintenance Operations	
BLSD Square Feet Maintained	330,000
BLSD Square Feet per Maintenance FTE	82,500
AS&U 5-Year Average National Median Square Feet per Maintenance FTE	95,000
Groundskeeping Operations	
Total Acres Maintained	27.48
BLSD Acres per FTE	0 <sup>1</sup>
AS&U 5-Year Average National Median Acres per Grounds FTE	43

Source: BLSD, Belmont County Auditor, AS&U and NCES

<sup>1</sup> Custodial and maintenance staff performs groundskeeping duties, as needed.

As shown in **Table 4-1**, BLSD custodial and maintenance staff clean and maintain less square footage than the industry standards. This indicates that the District could improve its efficiency in cleaning and maintaining its buildings (see **R4.2**). Physical inspection of the District’s buildings indicated that they were clean and well maintained

*Financial Data*

**Table 4-2** summarizes expenditures reported by the District to maintain and operate its facilities for FY 2005-06 through FY 2007-08.

<sup>3</sup> According to NCES, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.

**Table 4-2: M&O Expenditure Three-Year History**

	FY 2005-06	FY 2006-07	% Difference	FY 2007-08	% Difference
Salaries	\$513,343	\$545,615	6.3%	\$567,251	4.0%
Benefits	\$293,229	\$306,202	4.4%	\$318,778	4.1%
Purchased Services <sup>1</sup>	\$76,692	\$87,192	13.7%	\$86,275	(1.1%)
Utilities	\$332,805	\$348,495	4.7%	\$362,964	4.2%
Materials/Supplies	\$97,910	\$120,788	23.4%	\$144,976	20.0%
Capital Outlay	\$0	\$0	N/A	\$0	N/A
Other	\$0	\$0	N/A	\$0	N/A
<b>Total General Fund</b>	<b>\$1,313,980</b>	<b>\$1,408,292</b>	<b>7.2%</b>	<b>\$1,480,243</b>	<b>5.1%</b>
<b>All Funds</b>	<b>\$1,369,980</b>	<b>\$1,456,542</b>	<b>6.3%</b>	<b>\$1,492,923</b>	<b>2.5%</b>

Source: BLSD financial 4502 statement P & Q

<sup>1</sup> Excludes utilities

As shown in **Table 4-2**, BLSD has increased the rate of M&O expenditures in most areas. General Fund expenditures increased 7.2 percent in FY 2006-07 and 5.1 in FY 2007-08. Above average negotiated wage increases contributed to the total increase, as did a significant increase in materials and supplies. The increase in materials and supplies was attributed to the gradual aging of the buildings and an increased need to procure consumable items, such as cleaning supplies, as well as repair building systems. **Table 4-3** compares BLSD's FY 2007-08 General Fund expenditures per square foot on facilities with the AS&U national median. Expenditure categories that exceeded the AS&U national median may indicate operational inefficiencies and opportunities for cost reductions.

**Table 4-3: M&O Expenditures per Square Foot Comparison (FY 2007-08)**

	BLSD	Peer Districts	% Difference	AS&U Standard	% Difference AS&U
Salaries	\$1.72	\$1.75	(1.8%)	\$2.05 <sup>1</sup>	31.2%
Benefits	\$0.97	\$0.79	22.3%		
Purchased Services <sup>2</sup>	\$0.26	\$0.48	(45.5%)	\$0.21	24.5%
Utilities	\$1.10	\$1.30	(15.4%)	\$1.52	(27.6%)
Materials/Supplies	\$0.44	\$0.35	25.5%	\$0.38	15.6%
Capital Outlay	\$0.00	\$0.06			
Other	\$0.00	\$0.00	0.0%	\$0.40	N/A
<b>Total General Fund</b>	<b>\$4.49</b>	<b>\$4.73</b>	<b>(5.2%)</b>		
<b>Total All Funds <sup>3</sup></b>	<b>\$4.52</b>	<b>\$4.94</b>	<b>(8.4%)</b>	<b>\$4.56</b>	<b>(0.8%)</b>

Source: BLSD and peer district 4502 and the 37th Annual M&O Cost Study (AS&U, 2008)

Note: Totals may differ due to rounding

<sup>1</sup> Includes salaries and benefits

<sup>2</sup> Excludes utilities

<sup>3</sup> Includes permanent improvement levy funds

As shown in **Table 4-3**, the District's total expenditures per square foot were between 1 percent and 8 percent lower than the peer district average and AS&U national median. However, the

District's costs per square foot for benefits and materials and supplies were higher than the peers and AS&U average. In particular, BLSD spent 31 percent more per square foot than the national average in salaries and benefits. This is attributed to the District offering its employees a generous benefits package; however, its salaries are comparable to or lower than the peers (see **human resources** for further benefits assessments). To identify reasons for the higher supplies and material costs, BLSD's purchasing policies and procedures were reviewed to ensure leading practices were being followed. It was determined that the District seeks competitive pricing on facility goods and services. Instead, expenditures have increased as the District has purchased more goods related to repairs and general maintenance. Repairs to the buildings have accelerated based on the building ages and the expiration of warranties for key systems, as well as the need to perform routine maintenance (see also **R4.1** for a discussion on planning for maintenance and repairs and **transportation** for additional assessments on procurement).

## **Audit Objectives for the Facilities Section**

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

- How do the District's costs per square foot for maintenance operations compare with industry and AS&U benchmarks?
- Has the District established procedures and staff performance standards to ensure efficient operations?
- Is the District's custodial and maintenance staffing comparable to leading practices?
- Are District energy management practices comparable to leading practices?
- Are the District's facility management and planning practices comparable to leading practices?
- Does the District have an effective and equitable system for managing maintenance needs?

## Recommendations

### *Facility Planning*

- R4.1 Using its Maintenance Business Plan, BLS D should formally and systematically plan for its immediate and long-term facility needs. The District should develop a formal five-year capital improvement plan (CIP) that is consistent with the District’s overall strategic plan (see financial systems) and use the plan to ensure that critical repairs or equipment replacements are completed. BLS D should also develop and periodically update enrollment projections and use them to assess building utilization rates. These planning tools will help the District identify and address its future facility needs and balance these needs in relation to its education programs.**

BLS D’s OSFC-supported construction and rehabilitation projects have been completed for nearly ten years, but BLS D has not incorporated capital improvement plans or capacity analyses into its long-range planning process. According to the Superintendent, the M&O Department submits budget requests and requisitions for equipment replacement and repairs on an as-needed basis, but there is no long-term planning for capital needs. Also, the District does not routinely evaluate its facility needs. For example, the District received enrollment projections during the course of the OSFC project, but has not developed a system for creating its own projections, which hinders its ability to assess its future building capacity needs.

The District’s Maintenance Business Plan, developed by a consulting agency as part of its OSFC construction project, provides a detailed assessment of all facilities equipment, life cycle, maintenance frequency requirements, and estimated annual labor costs for each maintenance activity (see also **R4.5**). This Maintenance Business Plan was developed for the District to use as a living document solely to maintain its \$30 million investment in building improvements and replacement, and to develop a strategic plan for the management and preservation of its facilities.

According to *Creating a Successful Facilities Master Plan* (DeJong and Associates, Inc., 2001), school districts should develop long-term facilities master plans. The plans should contain information on capital improvement and financing, overall safety and condition of buildings, enrollment projections, and capacity analyses. The plans should be developed on foundations of sound data and community input and on facility conditions and demographics. The desired educational program should be the driving force. As a road map for addressing the District’s facility needs, the master plan should specify the projects that have been identified, the timing, the sequence of the projects and their estimated costs. A district-wide facility master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in

demographics, or other educational directions. *Preventive Maintenance for Local Government Buildings* (Minnesota Office of the Legislative Auditor, 2000) describes a capital improvement plan as a schedule of capital improvement projects listed in priority order over a number of years (usually five or more). Capital improvement plans typically include remodeling and new construction as well as major maintenance projects. According to *Educational Facility Master Planning* (SchoolFacilities.com, 2005), properly portraying building utilization and capacity is an important tool by which a district can promote building efficiency to the community.

By developing a more comprehensive facility planning process, supported by up-to-date enrollment projections and a five-year capital plan, the District will be better positioned to advance its educational mission through the quality and configuration of its facilities. Incorporating these planning documents will not only assist the District in planning for the use of its facilities, but it will ensure that facility needs are assessed on a regular basis. Tying its master and capital plans to its Maintenance Business Plan and the computerized maintenance management system recommended in **R4.5** will help BLSO better manage and preserve its facilities investment over the long-term.

### *Staffing and Operations*

**R4.2 BLSO should consider eliminating 4.0 FTE custodians to bring staffing levels more in line with industry standards and increase productivity levels within the M&O Department. The District should direct allocation of its custodial staff based on the needs of each school while maintaining appropriate workload levels.**

BLSO does not have a formal staffing plan, but has developed its staffing levels based on informal assessments of facility needs. The District allocates its staff as follows: 4 custodians at the middle school, 4 at the elementary school, and 5 at the high school. Its 4 maintenance FTEs are assigned on a District-wide basis. BLSO has not developed a formal workload allocation process, although its Maintenance Business Plan includes recommended maintenance staffing levels (suggested at 3.2 FTEs).

Based on the annual *Maintenance & Operations Cost Study* (AS&U, 2003-2007),<sup>2</sup> the national median productivity standard is one maintenance worker per 92,000 square feet. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends a range of 28,000 to 31,000 square feet per custodial FTE for school districts to maintain a level 3 of cleanliness, which NCES suggests is the norm for most school facilities, is acceptable to most stakeholders, and does not pose any health issues. In addition to custodial and maintenance duties, BLSO M&O Department employees also perform

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<sup>2</sup> These studies were the result of detailed surveys of business officials at school districts across the nation who collected information on staffing levels, workloads, facility expenditures, and salaries.

groundskeeping duties. According to the AS&U cost survey, a benchmark for the groundskeeping function is one staff person per 43 acres.

**Table 4-4** provides key statistics used to assess staffing levels based on FY 2008-09 data.

**Table 4-4: BLSD Square Feet/Acres per FTE**

Position	BLSD Staffing (FTEs)	BLSD Square Feet/Acres	BLSD Square Feet/Acres per FTE	NCES and AS&U Benchmarks (Sq. Feet/Acres )	BLSD Staffing Required Per Benchmark
<b>Custodians</b>	14.5	302,212 <sup>1</sup>	20,842	29,500	10.2
<b>Maintenance</b>	4.0	330,000 <sup>2</sup>	82,500	95,000	3.5
<b>Groundskeeping</b>	0.0	27.5 <sup>2</sup>	0.0	43	0.6
<b>Total</b>	18.5				14.4

**Source:** BLSD interviews; American Schools and Universities and National Center for Education Statistics

<sup>1</sup> Includes the high school, middle school, elementary school, and administrative office.

<sup>2</sup> Includes all school buildings, administration office, athletic complex buildings, and maintenance buildings. District maintenance staff performs groundskeeping duties.

**Table 4-4** shows BLSD’s custodial staff cleans 28 percent fewer square feet per FTE (20,842) than recommended by NCES (29,500). Although maintenance staffing appears higher than recommended levels by 0.5 FTE, these employees also perform groundskeeping functions. The lowest level of productivity in the custodial workload, based on square feet cleaned per FTE (19,700), occurs at the elementary and middle schools. The high school custodians clean an average of 26,200 square feet per FTE, but this is still lower than the recommended productivity standard (29,500). In order to increase the level of productivity to be in line with national standards, BLSD should consider eliminating 4.0 FTE custodians.

By aligning staffing with national benchmarks and using established procedures (see **R4.3**), productivity standards and measurement of operational performance (see **R4.4**) will help the District improve its custodial and maintenance efficiency in each building. Reducing custodial staff would bring the M&O workload more in line with national standards and reduce unnecessary salary and benefit costs. Further, the cost savings will help the District to reallocate funding to educational programming and assist the District in alleviating its General Fund deficit.

*Financial Implication:* Eliminating 4.0 FTE custodian positions will save approximately \$100,000 in salaries and \$47,000 in benefits, for a total cost savings of \$147,000 per year.

**R4.3 BLSO should develop a formal handbook for custodial and maintenance operations. The handbook should address topics such as personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, security standards, and work order procedures (see R4.5). The manual should detail time standards and processes for accomplishing tasks. It should contain specific instructions on the performance of routine and non-routine tasks and directions for operating any equipment to be used in completing the tasks. The District should review the manual annually and update the procedures as necessary.**

Although the District identifies specific tasks required of its custodial staff per shift within individual job descriptions, Board policies, position schedules, and the negotiated agreement, it does not have a formal handbook for all M&O staff that describes the cleaning, maintenance, and groundskeeping functions. According to the Supervisor of Building Operations, most staff is experienced, so a manual has not been deemed necessary. However, BLSO custodians do not maintain a high workload (see R4.2), and changes in staffing may impact building cleanliness unless the District invests in additional training and formal procedures.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), every maintenance and operations department should have a policies and procedures manual that governs day-to-day operations. The manual should be readily accessible (perhaps through the District's intranet or internet sites). NCES recommends that management:

- 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 International Sanitary Supply Association (ISSA) has developed a handbook designed to help train and guide custodians. The handbook details the correct cleaning methods as well as the proper use of custodial equipment, and offers guidelines and tips 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 *Custodial Methods and Procedures Manual* (ASBO, 2000) recommends an updated custodial and maintenance procedural manual that encompasses current cleaning processes utilized by the district's custodial operations, and incorporates standards to ensure appropriate staffing levels that are updated to reflect the current environment. *The Science of Cleaning* (Trombetta, n.d.) recommends cleaning professionals consider their occupation a science and evaluate how they perform each cleaning process and the tools they use. BLSD could also use the ISSA recommended cleaning times to reevaluate its cleaning processes. Twin Valley Local School District (Preble County) has applied these standards to its custodial procedures and achieved high levels of efficiency while maintaining a sanitary environment. Similarly, Oregon CSD (Lucas County) has instituted ISSA workload measures for its staff and achieved a very high productivity level without sacrificing building conditions (approximately 39,000 square feet cleaned per custodian in FY 2008-09). Oregon CSD uses written procedures and handbooks to instruct staff in the best methods to apply cleaning and maintenance procedures.

Without a formal policies and procedures handbook to guide custodial and maintenance operations, procedures and standards may not be consistently followed. Developing and incorporating policy and procedures manuals and standards for all custodial staff will help ensure that its capital assets are cleaned in the most efficient and effective manner and allow BLSD to increase the workload of custodians without negatively impacting building conditions. BLSD could develop and implement a policy and procedures manual at no additional cost to the District.

**R4.4 BLSD should develop and implement formal performance standards and measures to clarify staff expectations, evaluate individual performance, and assess the overall effectiveness of M&O activities. The District should seek to maximize productivity by using specific performance measures such as the number of square feet cleaned per hour or per shift, costs per square foot, and user satisfaction. Increased efforts to measure and track performance can improve decision-making and resource allocation and may help reduce operating costs. Additionally, the District should evaluate the performance of all M&O Department staff annually based on the established performance measures. Finally, performance measures should be**

**incorporated into a policies and procedures handbook (R4.3) to ensure that all staff are properly informed of time and job duty expectations related to their positions.**

The District does not use benchmarks that contain expected cleaning efficiency or productivity levels, nor does it employ user surveys to identify areas for improvement. Instead, the District annually evaluates maintenance and custodial staff based on duties described in their position schedules<sup>4</sup> and the bargaining unit agreement. Furthermore, the District refers to the maintenance position schedules to assign work tasks to the maintenance staff and tracks the completion of work in the monthly maintenance report that is submitted to the Board. Although the District does not use performance measures to determine levels of staff productivity, the District's buildings appear to be clean and well maintained.

*Best Practices in Public Budgeting* (GFOA, 2000) recommends that organizations develop and use performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions.

According to *A Game Plan for Productivity: Tactics for Holding Down Labor Costs and Helping the Bottom Line* (FacilitiesNet, 1999), a school district can experience savings when maintenance and operations managers measure the productivity of the custodial function and increase the productivity of the people that perform these activities. Facilities managers who apply recommended practices can increase the productivity of their custodial operations by 10 to 25 percent and decrease their overall labor budgets. Productivity measures should include the following:

- Square feet cleaned per hour or per shift;
- Costs per square foot to clean a facility;
- Quality of service;
- Definitions for productivity and performance; and
- Customer input.

Without performance standards and measures, the District limits its ability to evaluate organizational performance in an objective manner. Evaluating operations through objective criteria can establish a baseline performance measure that BLSD can then use for comparing whether changes affect operational performance. Implementation of performance standards and measures, coupled with its job descriptions and position

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<sup>4</sup> Position descriptions include broad tasks required of custodians and the estimated time to finish each task.

schedules identified within the bargaining unit agreement, could raise the level of service provided by the M&O Department with little additional cost.

**R4.5 The District should consider adopting a computerized maintenance management system (CMMS) to adequately track and assess maintenance work order data. Using a CMMS will allow the District to aggregate and analyze maintenance history and identify trends, thereby improving the management of its facility maintenance program. Moreover, an organized work order system will allow the District to estimate future costs and justify capital replacement, as needed.**

The District does not use an automated system (e.g., spreadsheet or software) to track and assist with prioritizing work orders. Instead, BLSD uses an informal process that starts with a maintenance request form. The pre-printed form is filled out, mainly by principals and/or teachers, and submitted to the Supervisor of Building Operations (Supervisor) for processing. The Supervisor uses the maintenance request forms to reference and prioritize projects daily, and to schedule staff. The maintenance request forms record the following information:

- Date request was received and completed;
- Material and labor cost;
- Level of priority (urgent, routine, or deferred); and
- Type of maintenance performed (corrective, preventative, or requisitioned).

In a review of nine completed work request reports sampled, there were no material or labor costs recorded in any of the repairs. When assessing timeliness of the repairs, the Supervisor indicated that maintenance staff completes most work orders on the same day, which was corroborated by the nine sample work orders. Although the District does not have an automated system for tracking information such as associated supply costs, labor hours, and a history of response time, the Supervisor of Building Operations indicated that the work order process works well. The Supervisor did not see any benefit in using a spreadsheet or software because of the time it takes to input information, and because the maintenance and custodial staff for the District are not sufficiently proficient with computers to effectively use a software system or spreadsheet to track work orders.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that a work order has been addressed, and track the cost of parts and labor. While a work order system can be a manual paper-based tracking tool, more efficient work order systems come in the form of computerized maintenance management systems (CMMS). Their purpose is to manage work requests as efficiently as possible and meet the basic information needs of the district. The *Planning Guide for Maintaining*

*School Facilities* states that at a minimum, the work order should account for the following:

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

The Maintenance Business Plan, developed as part of the OSFC project, was developed using a zero-based budgeting model and information on the maintenance of all building components from manufacturer recommended maintenance guidelines. It has also used empirical data for those maintenance tasks that cannot be predicted, such as emergencies, user requests, and other unplanned maintenance. This OSFC metric provides information for BLS D to identify how close the school is to its predicted master maintenance plan budget, and strategic plan. It also can help the “facility officer” to make sure that the focus of all maintenance personnel is on long-term facility protection versus short-term wants. Although BLS D received the Plan in hard-copy form, it is also available to the District online through the OSFC web site.

The Maintenance Business Plan recommends adoption of a CMMS to ensure facility maintenance is completed on an appropriate schedule. Adopting a CMMS will help BLS D plan and budget costs using the OSFC database containing its Maintenance Business Plan. By tracking the information contained on the work orders over a historical period, the District will be able to ensure that processes are being completed in the most efficient manner and that repair needs are being addressed in a timely fashion. Furthermore, tracking a history of reported supply and labor costs will allow the Supervisor of Building Operations to use this information in departmental budgeting and allocation of work to staff. In addition, the work order system will allow the District to easily track and monitor the productivity and performance of assigned personnel.

Depending on the financial resources available, the District should consider sending maintenance staff to training on using the most current maintenance procedures and technology. The District’s Maintenance Business Plan lists training and education resources. The Ohio Public Facilities Maintenance Association (OPFMA) also offers Building Operator Certification, which certifies maintenance staff in energy and resource

efficient operations of building systems. BLSD would incur additional costs to send its personnel to training.

*Financial Implication:* The District should consider purchasing CMMS web based software. CMMS software would cost approximately \$1,000 in annual maintenance fees. The exact price will depend on the features desired by BLSD and the contract terms negotiated with the vendor.

**R4.6 The District should develop and implement a formal energy conservation plan, which should incorporate comprehensive energy management policies and procedures, such as training and awareness programs, as well as regular reviews (audits) of utility usage. Implementing an energy conservation plan will help the District reduce utility expenditures.**

The District has a Board policy on energy conservation, specifying that an energy management plan should be developed and requiring periodic energy audits. However, a formal plan has not been implemented. Despite the absence of a formal energy conservation plan, the District's utility costs are lower than benchmark standards. This is due to its automated temperature controls throughout each building, which allows the Supervisor of Building Operations to have access from a remote location at all times. Therefore, the Supervisor of Building Operations can shut off or adjust temperature settings for heating and air conditioning to a classroom or sections of a building as needed.

According to *Legislation Plus Strategic Energy Plan Equals Success* (OPFMA, 2007),<sup>5</sup> the foundation of any effective energy conservation program is a Strategic Energy Plan (SEP). The plan needs to be multi-faceted and comprehensive, and should include the following:

- Management support and policy;
- Reporting requirements and procedures;
- Benchmarking of current energy use;
- Setting building operating standards or policies (best practices);
- Assessment of energy savings opportunities;
- Financial planning for energy saving measures;
- Reviewing procurement options;
- Operations and maintenance equipment assessments;
- Staff training programs; and
- Performance goals and timelines.

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<sup>5</sup> The publication also includes several common strategies for reducing energy use.

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

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the district's energy management program;
- Monitor each building's energy use; and
- Conduct energy audits in all buildings to identify energy inefficient units.

*School Operations and Maintenance: Best Practices for Controlling Energy Costs - A Guidebook for K-12 School System Business Officers and Facilities Managers* (U.S. Department of Energy, 2004) notes that voluntary energy awareness programs operate on the premise that increasing the general energy awareness of faculty, staff, and students will result in voluntary changes in behavior and reductions in energy consumption. Awareness programs can impact energy usage immediately by 3 percent, and a combination of programs can yield up to 15 percent savings.

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

By implementing a voluntary awareness program and acting on the Board policy to develop and institute an energy management program, BLSD could achieve immediate savings of 3 percent on its utility costs. Using energy audits and more aggressive building heating and cooling settings could result in additional savings. Because BLSD's buildings have many energy efficient components already built in, the fully 15 percent savings might be difficult to achieve; however, a median level of savings, on the order of 8-10 percent, could potentially be attained.

*Financial Implication:* Through a formal energy conservation program, BLSD could save up to 8 percent on its utility costs, or \$29,000 per year.

## Financial Implications Summary

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

### Summary of Financial Implications for Facilities

Recommendation	Annual Costs	Annual Savings
R4.2 Reduce 4 custodial positions		\$147,000
R4.5 Purchase CMMS system	\$1,000	
R4.6 Implement energy conservation program		\$29,000
<b>Total</b>	<b>\$1,000</b>	<b>\$176,000</b>

Source: AOS





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# Transportation

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## Background

This section of the performance audit assesses Bellaire Local School District's (BLSD or the District) transportation operations and its Transportation Department (the Department). The District's operations were evaluated against leading practices, operational standards, and selected peer districts.<sup>1</sup> Comparisons were made for the purpose of developing recommendations to improve efficiency and/or business practices and, where appropriate, to reduce costs. Leading practices and operational standards included in this section were drawn from the American Association of School Administrators (AASA), the Association of School Business Officials (ASBO), the Legislative Office of Education Oversight (LOEO), the Ohio Department of Education (ODE), and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Ohio Revised Code (ORC) § 3327.01 requires that, at minimum, school districts provide transportation to and from school to all students in grades kindergarten (K) through eight who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to public school students. In addition, school districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance. According to Ohio Administrative Code (OAC) § 3301-51-10, when required by individualized education programs (IEP), school districts must provide specialized door-to-door transportation to special needs students based on the unique needs of each child.

Due to the lack of safe walking routes in the District, BLSD exceeds State minimum requirements and transports all students who live outside a one-mile radius from their schools. While the District promotes cluster stops, their use is limited to densely populated areas and locations with sidewalks. Thus, it transports students who live within one mile of their schools where a lack of sidewalks creates unsafe walking conditions.

### *Operating Environment*

The Transportation Supervisor manages the District's transportation function and has a number of duties that include configuring bus routes, helping with maintenance and repair work, preparing transportation reports, and supervising mechanics and bus drivers. BLSD employs multi-tier routing, staggered bell schedules, and some cluster stops (see **R5.1**) to improve the

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<sup>1</sup> See the **executive summary** for a description of the ten peer district average used as a benchmark throughout the report.

efficiency of its routes. However, routing is done by hand using the sweep method<sup>2</sup> because of the small size of the District. In addition to providing transportation to students that attend BLSD, the District also transports students who attend the Belmont Career Center, Belmont County Alternative Program (B-Cap), the Concentrated Conduct Adjustment Program (C-Cap),<sup>3</sup> and four non-public schools including Martins Ferry Christian School, St. John Central Grade School, St. John Central High School, and St. Joseph Central Grade School.

Transportation reports (T-reports) are used to convey ridership (T-1) and cost (T-2) information to ODE and other stakeholders. BLSD has historically misreported data in its T-reports, attributable to errors caused by an overall lack of internal controls (R5.2).<sup>4</sup>

BLSD overstated its transportation costs on the T-2 report by including the cost of all fuel procured and the insurance cost of all vehicles for FY 2007-08, including vehicles not used for the transportation of students. Although it contains reporting errors, the data is the best available and will be used to compare BLSD's total transportation expenditures with the peers. However, further analysis was conducted to assess cost efficiencies in these areas that were misreported (e.g. fuel and insurance).

BLSD has sufficient physical controls in place to ensure the security of its transportation-related assets. The bus garage – which stores the District's buses, fuel, and other transportation supplies – is enclosed by a fence with a gate that is locked at night. The fuel pump is turned off at the breaker switch nightly to prevent theft.

### *Operational Statistics*

**Table 5-1** compares BLSD's key transportation statistics with the peer averages for FY 2007-08.

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<sup>2</sup> The sweep method uses hand calculations and pinpoints stops on a map. Other routing methods include the use of a time saving heuristic algorithm (which uses mathematical calculations) and computer programs (i.e., routing software).

<sup>3</sup> On most days, the District transports students who attend the C-Cap program to the Belmont Career Center. At the Career Center, students who attend C-Cap are shuttled on a bus that is operated by a neighboring district. BLSD transports students to and from C-Cap if the neighboring district that typically provides transportation has a calamity day, but BLSD does not.

<sup>4</sup> It should be noted that costs associated with transportation attendants were excluded from the T-2 report. This is not a T-form reporting error because these positions are funded using federal grant funds as part of the Individuals with Disabilities Education Act (IDEA).

**Table 5-1: Pupil Transportation Operating Statistics**

District Data	BLSD FY 2007-08	Peer Average FY 2007 -08	Percent Above (Below) Peers
Square Miles	44	141	(68.8%)
ODE Enrollment	1,475	1,789	(17.6%)
Total Students Transported	1,217	1,208	0.8%
<b>Yellow Bus Riders (Type I)</b>			
Public	1,148	1,142	0.5%
Non-Public	61	35	74.8%
Community School	0	0	n/a
Special Needs	8	6	33.3%
Total Yellow Bus Riders	1,217	1,183	2.9%
<b>Buses (Type I)</b>			
Active Buses	21	18	16.7%
Spare Buses	3	6	(50.0%)
<b>Miles (Type I)</b>			
Annual Routine Miles	283,860	297,666	(4.6%)
Annual Non-routine Miles	24,148	24,524	(1.5%)
Total Miles	308,008	322,190	(4.4%)

**Source:** ODE transportation reports

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

**Table 5-1** data shows that the District is geographically smaller than the peers and it buses travel fewer miles than the peers. Although BLSD had fewer students enrolled than the peer average in FY 2007-08, the District transported a higher percentage of its average daily membership (ADM) than the peers. High ridership levels can be attributed, in part, to the District's practice of transporting students above the State minimum requirement and transporting a larger number of non-public riders. The District also operated more active buses than the peers. However, in FY 2008-09, the Transportation Supervisor consolidated routes and operated 19 active buses and 5 spare buses to transport 1,226 riders (see **R5.1**).

The *37th Maintenance and Operations Cost Study* (American School & University Magazine, 2008) identifies the national median cost of transportation at \$437 per student, or 4.88 percent of total district expenditures. Both BLSD and the peers exceed these national benchmarks, spending approximately \$780 and \$740 per rider, respectively, and over 6 percent of all governmental fund expenditures on pupil transportation.

**Table 5-2** shows a comparison of overall transportation costs per rider, per bus, and per routine mile.

**Table 5-2: Transportation Expenditure Comparison (FY 2007-08)**

	<b>BLS D</b>	<b>Peer Average</b>	<b>Percent Difference</b>
<b>Total Transportation Expenditures</b>	<b>\$951,717</b>	<b>\$894,096</b>	<b>6.4%</b>
Per Yellow Bus Rider	\$782	\$736	6.2%
Per Active Bus	\$45,319	\$46,522	(2.6%)
Per Routine Mile	\$3.35	\$3.08	8.8%

**Source:** District and peer T-1 and T-2 reports

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

As illustrated in **Table 5-2**, the District's expenditures per rider and per routine mile appear higher than the peer average. The District's transportation expenditures were adjusted to include only insurance costs associated with the District's transportation fleet. However, the cost of fuel was not adjusted; as a result, the BLS D transportation expenditures also reflect fuel used for non-routine transportation. Additional analysis was conducted on the District's fuel costs (see **R5.3**).

While most transportation related supplies and materials are purchased from local vendors, in key areas, BLS D has not been able to achieve comparable cost savings locally when compared with supplies purchased through consortia. For example, the prices per gallon of fuel paid by BLS D for the periods tested during 2008 were slightly higher than the average price per gallon available through the Ohio Department of Administrative Services (DAS) for the same time periods (see **R5.3**).

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

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

- How do the District’s transportation policies and procedures compare with leading practices and how do they impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District’s “yellow bus” (Type I & II) transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost effectiveness of transportation operations through improved human resources management?
- Does the District have sufficient controls in place to ensure the security of buses, equipment, parts, supplies, and fuel?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?

AOS found that BLSD met recommended practices in the areas of non-routine transportation, human resource management related to Transportation Department personnel, securing transportation related supplies and assets, and insurance expenditures.

## Recommendations

**R5.1** BLS D should increase its operating efficiency by eliminating two buses and five elementary runs. This would bring its high school/middle school runs in line with the benchmark standards of two students per seat and would improve the efficiency of elementary runs. BLS D should regularly review its bus capacity by routinely monitoring ridership levels to allow the District to alter routes in a manner that coincides with changes in ridership.

To increase the number of riders per bus, the District may need to revise bell schedules to allow for more time between runs. Where transportation is impractical, the District should offer payment in lieu of transportation. Finally, the District should consider purchasing routing software. The use of routing software would help the District examine more routing options and eliminate inefficient runs. When determining which buses to remove from its active fleet, BLS D should eliminate the buses with the highest mileage and highest maintenance costs.

Table 5-3 illustrates the District's enrollment and ridership since FY 2005-06.

**Table 5-3: Historical Change in Ridership**

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
<b>Enrollment</b>	1,504	1,493	1,475	1,411
<b>Total Riders</b> <sup>1</sup>	1,343	1,343	1,217	1,226
<b>Total Riders as % of Enrollment</b>	89%	90%	83%	87%
<b>Riders per Bus</b>	64.0	64.0	58.0	64.5
<b>Number of Active Buses</b>	21	21	21	19

Source: BLS D T-1 reports and ODE Enrollment Data

<sup>1</sup> Total riders include public, non-public, and special needs students.

As shown in **Table 5-3**, the trend in ridership is declining, coinciding with the decline in enrollment since FY 2005-06. The District decreased the number of active buses in FY 2008-09, which lead to an increase in ridership per bus from FY 2007-08. Despite recent reductions in the number of active buses, BLS D has not reduced its active bus fleet to a level sufficient to maintain efficient ridership levels relative to its bus capacity. The Transportation Supervisor is aware that some buses have low ridership levels and hopes to address routing inefficiencies by combining smaller routes.

BLS D primarily operates a two-tier route schedule, with the high school, middle school, and non-public routes in the first tier and elementary school routes in the second tier. Where possible, students with special transportation needs are mainstreamed on regular buses. The District operates shuttle runs to transport students to the Belmont Career

Center and from the high school to the middle school.<sup>5</sup> While the geographic size and rural nature of the District impact the amount of time it takes to transport riders from their designated stops to the schools, the District is smaller and more densely populated than the peer average. Even though BLSD transported more riders in FY 2007-08, it transported fewer riders per active bus compared with the peer average. This indicates that there are opportunities for the District to increase its operational efficiency. However, addressing complex routing inefficiencies may be difficult for the District as it does not utilize an automated routing system, but instead relies on manually organizing routes based on institutional knowledge.

In its 1998 review of the Socorro Independent School District, the Texas School Performance Review explained that the coordination of bell times allows for multiple trips and greatly improves the productivity of each bus route, lowering the cost of service. According to the ODE Director of Pupil Transportation, in most cases it is necessary to change the bell schedule so that multiple tiered routes can be used. If a change to multiple tiered routing allows for a reduction of buses in the fleet, then a substantial cost savings will result. Extending the time between bells would allow some buses to pick up additional students; however, it would not impact buses that already pick up large numbers of students at cluster stops. BLSD administrators noted that some buses arrive at certain school buildings well in advance of the majority of students and, therefore, personnel must be on hand to monitor students. The timing of student drop offs is impacted by the contractually stipulated length of the workday, as BLSD uses building teachers to monitor students arriving early.

According to *Hidden Savings in Your Bus Budget*, (AASA, September 2006), actual school bus capacity use must be measured within 80 percent of rated capacity as a goal. *School Bus Seat Capacity* (NASDPTS, October 1999) recognizes that school buses transport students of all sizes, and calculates capacity based on three elementary students per seat and two middle or high school students per seat. **Table 5-4** shows the District's operational efficiency when applying the NASDPTS benchmark.

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<sup>5</sup> The District operates one shuttle run to the Belmont Career Center, which is located in St. Clairsville. Additionally, a shuttle run transports some middle school students from the high school to the middle school.

**Table 5-4: BLSD Operating Efficiency (FY 2008-09)**

	Middle /High School	Elementary School
Number of Active Buses <sup>1</sup>	17.0	17.0
Benchmark Capacity <sup>2</sup>	720.7	864.8
Benchmark Capacity per Active Bus	42.4	50.9
Number of Regular Type I Riders	626.0	476.0
Average Number of Riders per Bus	36.8	28.0
Number of Buses to Achieve Benchmark	14.8	9.4
Number of Buses to Reduce	2.2	7.6

**Source:** Compiled by AOS

<sup>1</sup> In FY 2008-09, BLSD operated 17 regular buses to transport students. Of those, 12 had a rated capacity of 65 passengers and 3 had a rated capacity of 78 passengers.<sup>6</sup>

<sup>2</sup> The utilization rate of 80 percent was applied to elementary runs.

As shown in **Table 5-4**, when applying the benchmark, it is possible for BLSD to reduce two buses. Because the District's elementary runs are below the benchmark capacity, it is possible for BLSD to achieve further efficiencies by consolidating elementary runs or seeking alternative means of transporting students for whom transportation is deemed impractical. Eliminating an additional five elementary runs would bring the District to benchmark capacity and reduce the costs of transportation operations by reducing benefits and hourly wages paid to drivers.

Furthermore, ODE developed efficiency ratios for all Ohio school districts based on fleet size, square miles, population density, and ridership. For FY 2008-09, the District's adjusted target ridership was 67.3 riders per bus. As shown in **Table 5-4**, BLSD is not meeting this efficiency standard.

ORC § 3327.02 provides that a board of education may determine that it is impractical to transport a pupil who is eligible for transportation to and from school. The District must consider several criteria which are outlined in the law before deeming transportation impractical. In the case of BLSD, it may wish to examine some of its very low ridership routes to determine if alternatives are possible.

Developing effective routes is critical for improving routing efficiency. *A Methodology for Evaluating of School Bus Routing – A Case Study of Riverdale, New Jersey* (Transportation Research Board, 2001) evaluates and compares three techniques used in school bus routing. The study ultimately found computerized routing to be the most effective solution to routing issues, as the software generated the lowest cost routes.

<sup>6</sup> The two other buses used to transport regular needs riders have rated capacities of 32 and 35 students. Although the buses transport all riders, one of the buses is a special needs bus and the other was modified to transport wheelchair-bound students. This analysis does not include one bus with more than 50 percent of riders with special needs or a bus that is only used for an afternoon run.



By using routing software, consolidating routes, and altering bell schedules, the District can increase the number of riders on each bus. Reducing two buses at the high school level and an additional five runs at the elementary level, would bring the District in line with national benchmarks and decrease transportation costs.

*Financial Implication:* Reducing its fleet by two buses and eliminating five elementary runs would allow BLS D to save approximately \$100,000 annually in salary,<sup>7</sup> benefit, and vehicle insurance costs. The estimated one-time cost for purchasing routing software is approximately \$9,500. Annual maintenance fees are approximately \$2,100.

**R5.2 BLS D should develop and implement written procedures for completing, reconciling, and submitting T-forms. The Transportation Supervisor and the Treasurer should verify that all expenditures reported in the T-2 report are consistent with ODE instructions and represent costs associated with the routine use of school buses. Likewise, the District should ensure ridership data reported on the T-1 report is collected in accordance with ODE requirements. District personnel should attend the ODE transportation training to help improve the accuracy of T-report data.**

The District does not have written procedures that outline steps for compiling the T-reporting information based on ODE's requirements. The Transportation Supervisor is responsible for ensuring compliance with ODE guidelines for the submission of the District's October ridership and mileage on the T-1 report. T-2 cost reports are completed by the Treasurer, since she has access to all the financial data except for the cost per gallon of fuel, which is the responsibility of the Transportation Supervisor. According to the Transportation Supervisor, he has not recently attended transportation training sponsored by ODE because the sessions are held on weekdays during the school year.

In FY 2007-08 and FY 2008-09, BLS D failed to accurately report transportation data to ODE. For example, BLS D did not follow the ODE instructions for collecting T-1 report data and counted ridership and mileage using data collected in September instead of October. Furthermore, AOS found that the District reported an inflated ridership figure by including ridership for shuttle runs and afternoon runs, which is contrary to ODE reporting guidelines.

In addition, the District included fuel costs for non-routine transportation on its T-2 report. The District manually documents non-routine trip information, including miles driven, fuel used, departure and return times, and other trip information. The Transportation Supervisor and central office personnel use a form to track fuel and salary and benefit costs associated with the non-routine use of buses. However, the fuel costs

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<sup>7</sup> Increasing capacity may result in longer runs and additional compensation for drivers. As a result, cost savings that are attributed to salaries may be lower.

were not excluded from the T-2 report as required by ODE. The District also incorrectly reported insurance and fuel costs for all of its vehicles, rather than just the buses in the District's transportation fleet. Therefore, the District is overstating its transportation costs.

Lastly, BLSD reported more than 260 special need riders in FY 2006-07 compared with 8 riders the following year. The large variance was the result of the District coding all students with special needs as special education riders in its FY 2006-07 ridership count. With guidance from ODE, the Transportation Supervisor corrected the reporting of special needs riders on its T-1 report for FY 2007-08 by only including students who, as part of their individualized education plans (IEP), required transportation as a related service, and who rode on buses on which special needs riders comprised more than 50 percent of the riders. The Special Education Coordinator confirmed that in FY 2008-09 fewer than 20 students had transportation as a related service in their IEPs.

According to *Student Transportation in Ohio* (LOEO, 2003), accuracy problems for transportation related data exist in a number of school districts, especially in terms of the number of students transported, daily bus miles traveled per student, and district transportation costs. The first step in ensuring accurate data is for a district to create and adhere to formal policies and procedures that govern the submission of district T-forms.

*Best Practices* (Ohio Office of Auditor of State, 2006) suggests that a well-designed internal control structure, framed through clear policies and procedures, helps to reduce improper activities and errors. Designing and implementing internal controls is a continuous process which requires risk evaluation, design, testing, and revision of procedures, as well as formal monitoring. Carefully designed internal controls can also help management provide a reasonable level of assurance that proper reporting is occurring.

Reporting transportation data to ODE is a complex process. ODE has specific instructions on reporting associated transportation costs and riders, which are provided on its web site.<sup>8</sup> The instructions include when to count riders, which riders to count, and what time of day to count riders. In addition, ODE has instructions for counting special education riders and for reporting transportation-related expenses. Following these instructions will help improve BLSD's reporting accuracy and could, if transportation reimbursements from the State return to a formula-driven calculation, help it receive the maximum reimbursement it is allowed.

Without written policies and procedures that identify the process and methodology for completing and reviewing the T-forms for accuracy and completeness, BLSD risks

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<sup>8</sup> <http://education.ohio.gov>

submitting erroneous or improperly derived information to ODE. On the other hand, well-documented procedures enhance the accountability and consistency among staff and management. Establishing a formal procedure that explains the methodology used to prepare T-reports will help ensure that the District is reporting accurate information.

**R5.3 BLSD should ensure it adheres to its purchasing policy by seeking comparative pricing, which may include joining a cooperative purchasing program such as the Ohio Department of Administrative Services (DAS) State term contract, so that it benefits from volume discounts.**

BLSD does not seek competitive fuel prices and is not part of a cooperative purchasing consortium for fuel. The District does have a general purchasing policy which states that it will seek competitive prices without prejudice and maximize educational value for every dollar expended. The District's purchasing policy also states that it will promote local purchasing, provided that goods of equal quality, competitive prices, and adequate service and delivery can be given by the local supplier. The District's policy further states that when feasible, three quotes should be obtained on outside contract work.

However, the District is not following its policy on seeking competitive pricing. For instance, BLSD purchases diesel fuel from a single vendor. According to the Transportation Supervisor, other school districts in the area use the same supplier. The Transportation Supervisor further states that while BLSD has purchased fuel in the past from other vendors, it found that the product was not of good quality and caused maintenance issues in the District's older vehicles. The District believes its vendor's prices are fair and reasonable; however, the Transportation Supervisor has not formally evaluated the competitiveness of its fuel supplier relative to other vendors.

The Ohio Department of Administrative Services (DAS), Office of State Purchasing uses a bidding process to enter into a contract through which State agencies, local governments, and school districts may purchase goods, such as fuel, at volume discounts. **Table 5-5** shows the comparison between BLSD's fuel prices and the DAS prices for a sample of five separate weeks.

**Table 5-5: BLSD and DAS Diesel Fuel Price Comparison**

Purchase Date	Gallons Purchased	BLSD Average Price per Gallon <sup>1</sup>	DAS Average Price per Gallon	Difference
2/21/2008	1,870	\$3.53	\$3.32	\$0.21
4/24/2008	2,106	\$4.03	\$4.07	(\$0.04)
5/8/2008	2,400	\$4.21	\$3.93	\$0.28
9/17/2008	2,645	\$3.51	\$3.63	(\$0.12)
11/13/2008	2,825	\$2.42	\$2.61	(\$0.19)
<b>Summary Comparison</b>				
<b>Average Price Difference (per Gallon)</b>		<b>\$3.54</b>	<b>\$3.51</b>	<b>\$0.03</b>

Source: BLSD fuel invoices and DAS

<sup>1</sup> Average price per gallon includes taxes and, for the DAS price, a fixed fuel transportation charge.

As shown in **Table 5-5**, the sample of BLSD's fuel invoices indicated that the District's prices were generally in line with or below the DAS prices. However, overall the District averaged about three cents more than DAS per gallon of diesel fuel because of a high spike in two of the periods sampled. A review of the District's fuel purchases from the entire year may indicate that, in some cases, the District's fuel costs are in line, or better than State contract prices. However, without seeking competitive prices, BLSD cannot ensure that it receives the best fuel prices.

By participating in a cooperative purchasing program and having the flexibility to choose the lowest cost fuel available, BLSD could benefit from some of the lower costs associated with higher volume purchases and competition.

**R5.4 BLSD should develop a formal bus replacement plan that describes its strategy, including budgeting, for bus procurement in future years. All bus replacements should be based upon economic modeling that allows for replacement at the most economically advantageous point in the life cycle. The plan should include a periodic review of bus information, such as mileage and maintenance records, to determine the buses with the highest costs to maintain in safe operation. By reviewing and updating the plan annually, the District will be better able to effectively plan and budget for future bus purchases while maintaining its fleet.**

BLSD does not have a bus replacement plan. In 2000, the District purchased three used buses with over 100,000 miles each. In 2004, the District purchased two new buses. Consequently, the District's fleet is comprised of older buses that require extensive maintenance and repair.

The Transportation Supervisor and mechanics check buses every 2,000 miles. During this inspection, mechanics check fluids and ensure everything is greased, oiled, and in proper working condition. Buses that are assigned shorter routes and do not accumulate as many miles are checked every 1,000 miles. During the inspections, the mechanics also address

any cosmetic repairs (e.g., patching a hole in a seat). The District tracks maintenance and repair costs, including labor, by bus.

The Transportation Supervisor believes the high cost associated with purchasing new buses has kept the District from developing a replacement plan. According to the Treasurer, the District could use the ODE bus allocation and its permanent improvement levy funds to procure new buses. However, no plans have been developed.

**Table 5-6** presents a comparison of the District’s FY 2007-08 maintenance and repair expenditures with the peer average.

**Table 5-6: Maintenance and Repair Historical Expenditures**

Cost Area	BLS FY 2005-06	BLS FY 2006-07	BLS FY 2007-08	Peer Average FY 2007-08
<b>Maintenance &amp; Repairs</b> <sup>1</sup>	\$92,723	\$149,827	\$151,575	\$115,367
· Per Yellow Bus Rider	\$69	\$112	\$125	\$97
· Per Active Bus	\$4,415	\$7,135	\$7,218	\$6,189
· Per Routine Mile	\$0.34	\$0.54	\$0.53	\$0.42

**Source:** BLS and peer district T-1 and T-2 reports

<sup>1</sup> Includes mechanic and mechanic helper salaries.

As shown in **Table 5-6**, BLS’s total maintenance and repair expenditures have increased annually. These costs can be attributed to the extensive maintenance and repair work needed to operate an aging fleet of buses. In FY 2007-08, the District spent 16.6 percent more per bus on maintenance and repair expenditures compared with the peer average. The Transportation Supervisor recognizes that an older fleet of buses (the District’s route buses average 10.8 years of age) contributes to high maintenance costs. According to the ODE Director of Pupil Transportation, the ODE vehicle database of school buses reports an average age of 8.5 years for route buses (excluding substitute and spare buses) in the State of Ohio.

According to ODE, detailed data representing the annual cost (repair and operating) of ownership for each bus is often overlooked by school districts. Although BLS does track the cost of ownership, without a replacement plan, it may be unprepared for future capital obligations and risks, devoting additional resources to maintaining more costly buses.

*School Bus Replacement Considerations* (NASDPTS, 2002) recommends that buses be replaced after 250,000 miles and/or 12 to 15 years of service, as the annual operating costs of school buses begin to increase significantly thereafter. Establishing a school bus replacement policy is an important activity, since it directly impacts the timeliness of introducing the latest safety, efficiency and emissions improvements into the fleet. The elimination of school buses that do not meet the latest standards and requirements must

be planned for within a realistic number of years. According to ODE, studies done on national fleets have shown that buses will typically start to accumulate higher cost repairs when they exceed 200,000 miles of operation.

If BLSD continues to purchase used buses, it must also consider how the life cycles of used buses impact future replacements. By developing a replacement plan that considers all maintenance costs and life cycles of its buses, the District will be better prepared to make significant future capital expenditures.

BLSD should capture bus replacement expenses in its five-year forecast. According to *Bus Replacement – When is it Time to Invest in a Brand New Vehicle?* (SBO Quarterly, April 2009), the average cost of a typical school bus in FY 2008-09 was approximately \$83,000. However, the cost of a typical school bus is expected to rise in subsequent years as vehicle suppliers comply with heightened emission standards. Of course, if the District decides to purchase used buses, as it has in the past, the purchase cost per bus would be lower.

## Financial Implications Summary

The following table represents a summary of estimated annual cost savings, as well as one-time and ongoing implementation costs, identified in this section of the report.

### Summary of Financial Implications for Transportation

<b>Recommendation</b>	<b>Annual Cost Savings</b>	<b>One-Time Implementation Cost</b>	<b>Annual Costs</b>
<b>R5.1</b> Eliminate two buses and five elementary runs	\$100,000		
<b>R5.1</b> Purchase routing software		\$9,500	\$2,100
<b>Total</b>	<b>\$100,000</b>	<b>\$9,500</b>	<b>\$2,100</b>

Source: AOS

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# Food Service

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## Background

This section of the performance audit focuses on the operational efficiency of the Bellaire Local School District's (BLSD or the District) food service operation. The financial condition and procedures of the District's food service program were analyzed for the purpose of developing recommendations for improvements in processes and identifying opportunities to increase efficiency. The Auditor of State (AOS) evaluated District operations against recommended practices, industry standards, State requirements, and operational benchmarks, including the National Food Service Management Institute (NFSMI), the Government Finance Officers Association (GFOA), Martins Ferry City School District<sup>1</sup> (CSD) in Belmont County, other Belmont County school districts, and peer district averages.<sup>2</sup>

### *Organizational Structure and Function*

Several individuals have responsibilities for managing BLSD's food service operations. The District employs a Food Service Secretary who submits federal reimbursement claims and maintains records of the operations. The head cooks at each building are responsible for menu planning and purchasing (see **R6.4**). Both the Treasurer and an administrative assistant have limited functions related to the food service operations through their roles in financial and grant administration (see **R6.1**).

BLSD's food service staff prepares and serves breakfast and lunch on site at the District's three school buildings. In addition to serving BLSD students, the high school kitchen prepares meals for the Belmont County Community Action Head Start. The District's participation rate for the National School Lunch Program was more than 70 percent in FY 2007-08. Of those students who participated, nearly 75 percent qualified for free or reduced priced meals. The District uses direct certification to improve program access for these students, which helps increase participation. When including a la carte sales, the District's total participation rate for lunch was 81 percent. These reported rates were in line with peer districts.

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<sup>1</sup> Martins Ferry CSD was undergoing a performance audit at the same time as BLSD. During the course of audit work, the Martins Ferry CSD food service program was determined to be highly efficient in its operations, so it could serve as a model for other districts. Because of its proximity to BLSD (approximately 10 miles apart) and lower expenditure ratios, it is used as a leading practice organization in several comparisons.

<sup>2</sup> Belmont County school districts include Barnesville Exempted Village School District, Bridgeport Exempted Village School District, Martins Ferry City School District, Shadyside Local School District, St. Clairsville-Richland City School District, Switzerland of Ohio Local School District, and Union Local School District. See the **executive summary** for a list of the 10 peer districts.

## Financial Condition

BLSD's food service program operates as an enterprise fund, relying on charges for services to support the costs of the operation.<sup>3</sup> **Table 6-1** illustrates the Food Service Fund revenue, expenditures, and other financing activities for FY 2005-06 through FY 2007-08.

**Table 6-1: BLSD Food Service Fund**

	FY 2005-06	FY 2006-07	% Change	FY 2007-08	% Change	3 Year Change
<b>Revenue</b>						
Student Charges	\$239,615	\$258,820	8.0%	\$244,414	(5.6%)	2.0%
State Grants-in-Aid	\$20,949	\$21,619	3.2%	\$19,148	(11.4%)	(8.6%)
Federal Grants-in-Aid	\$439,078	\$438,685	(0.1%)	\$450,684	2.7%	2.6%
<b>Total Revenue</b>	<b>\$699,642</b>	<b>\$719,123</b>	<b>2.8%</b>	<b>\$714,246</b>	<b>(0.7%)</b>	<b>2.1%</b>
<b>Expenditures</b>						
Personal Services - Salaries	\$268,580	\$269,628	0.4%	\$293,320	8.8%	9.2%
Employee Retirement and Insurance	\$201,634	\$205,510	1.9%	\$211,908	3.1%	5.1%
Purchased Services	\$363	\$0	(100.0%)	\$0	0.0%	(100.0%)
Supplies and Materials	\$252,520	\$258,220	2.3%	\$283,238	9.7%	12.2%
Capital Outlay	\$0	\$0	0.0%	\$0	0.0%	0.0%
Other Objects	\$0	\$0	0.0%	\$0	0.0%	0.0%
<b>Total Expenditures</b>	<b>\$723,098</b>	<b>\$733,359</b>	<b>1.4%</b>	<b>\$788,467</b>	<b>7.5%</b>	<b>9.0%</b>
<b>Spending Surplus (Deficit)</b>	<b>(\$23,456)</b>	<b>(\$14,236)</b>	<b>39.3%</b>	<b>(\$74,221)</b>	<b>(421.4%)</b>	<b>(216.4%)</b>
<b>Transfers/Advances</b>						
Transfers/Advances-In	\$0	\$0	0.0%	\$15,000 <sup>1</sup>	N/A	N/A
Transfers/Advances-Out	\$0	\$0	0.0%	\$0	0.0%	0.0%
<b>Net Transfers/Advances</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$15,000</b>	<b>N/A</b>	<b>N/A</b>
<b>Spending Surplus (Deficit) (Including Transfers)</b>	<b>(\$23,456)</b>	<b>(\$14,235)</b>	<b>39.3%</b>	<b>(\$59,220)</b>	<b>(316.0%)</b>	<b>(152.5%)</b>
<b>Beginning Fund Balance</b>	<b>(\$279,126)</b>	<b>(\$302,582)</b>	<b>(8.4%)</b>	<b>(\$316,817)</b>	<b>(4.7%)</b>	<b>(13.5%)</b>
<b>Ending Fund Balance</b>	<b>(\$302,582)</b>	<b>(\$316,817)</b>	<b>(4.7%)</b>	<b>(\$376,037)</b> <sup>2</sup>	<b>(18.7%)</b>	<b>(24.3%)</b>

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

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

<sup>1</sup> While this represents funds transferred from the General Fund into the Food Service Fund, it does not represent the total support the food service operation receives from the General Fund.

<sup>2</sup> The negative ending balance in the Food Service Fund represents the level of unaccounted support the operation has received from the General Fund and represents an obligation for repayment to this fund.

As **Table 6-1** illustrates, the District has posted year-end operational deficits for the past three fiscal years, which have contributed to a growing negative fund balance over the same period. While revenue has increased at a modest 2.1 percent over three years, the growth in expenditures

<sup>3</sup> However, Ohio Revised Code § 3313.81 stipulates that food service operations may not be used to make a profit.

has exceeded revenue growth. The most significant expenditure increases have been in the areas of employee salaries and supplies and materials. **Table 6-1** also shows that the District received \$15,000 in the form of a transfer from the General Fund in FY 2007-08. However, this does not represent the total support the operation receives from the District’s General Fund. The effect of continued operational deficits has resulted in an ending fund balance deficit for FY 2007-08 approaching \$400,000. The negative operating and fund balances result in the District’s General Fund paying these deficits through transfers (see the adjusted forecast in **Table 2-11** within **financial systems**). In fact, the District’s annual financial audit has repeatedly cited the District for maintaining a negative fund balance in the Food Service Fund.

**Table 6-2** shows financial data for FY 2007-08 and compares BLSD’s Food Service Fund revenue and expenditures with the peer averages and with Martins Ferry CSD on a per meal equivalent basis.<sup>4</sup>

**Table 6-2: Operating Statistics Comparison FY 2007-08**

	<b>BLSD</b>	<b>Peer Districts</b>	<b>Variance</b>	<b>Martins Ferry CSD</b>	<b>Variance</b>
<b>Total Meal Equivalents Served</b>	198,165	209,164	(5.3%)	260,495	(23.9%)
<b>Revenue per Meal Equivalent</b>					
Operating Revenue <sup>1</sup>	\$1.23	\$1.45	(15.1%)	\$0.90	37.6%
Non-Operating Revenue <sup>2</sup>	\$2.37	\$1.25	89.0%	\$1.50	58.4%
<b>Total Revenue</b>	<b>\$3.60</b>	<b>\$2.71</b>	<b>33.1%</b>	<b>\$2.39</b>	<b>50.6%</b>
<b>Expenditures per Meal Equivalent</b>					
Salaries	\$1.48	\$0.90	64.6%	\$0.91	62.2%
Fringe Benefits	\$1.07	\$0.58	84.4%	\$0.45	140.2%
Purchased Services	\$0.00	\$0.11	(100.0%)	\$0.00	0%
Supplies and Materials	\$1.43	\$1.00	43.0%	\$0.97	47.0%
Capital Outlay	\$0.00	\$0.01	(100.0%)	\$0.07	(100.0%)
Other	\$0.00	\$0.00	0%	\$0.00	0%
<b>Total Expenditure</b>	<b>\$3.98</b>	<b>\$2.60</b>	<b>53.1%</b>	<b>\$2.41</b>	<b>65.3%</b>
<b>Total Gain or (Loss)</b>	<b>(\$0.38)</b>	<b>\$0.11</b>	<b>---</b>	<b>(\$0.02)</b>	<b>---</b>

Source: BLSD, peer districts, Martins Ferry City School District, and ODE

Note: Totals may not sum due to rounding.

<sup>1</sup> Includes charges for paid and reduced price meals, a la carte sales, and the meals provided to the Belmont County Community Action Head Start.

<sup>2</sup> Includes federal reimbursements for participation in the National School Lunch Program, State grants-in-aid, and earnings on investments.

<sup>4</sup> Per meal equivalents were based on definitions from National Food Service Management Institute. The conversion of meal equivalents used is as follows:

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

As shown in **Table 6-2**, despite taking in significantly more revenue per meal equivalent than the peer districts and Martins Ferry CSD, BLSD lost \$0.38 for each meal equivalent served in FY 2007-08.

The large percentage of BLSD students participating in the school lunch program and receiving meals at a free or reduced price explains the high level of non-operating revenue per meal equivalent at the District. Moreover, while a comparison of meal prices indicated that BLSD's prices were slightly below other Belmont County districts, the District's revenue per meal equivalent exceeds the peer average and Martins Ferry CSD. This indicates that BLSD collects sufficient revenues but is operating inefficiently and, as a result, the focus of this section of the audit is on operating expenditures.

## **Audit Objectives for the Food Service Section**

The following is a list of the questions used to guide the evaluation of food service functions at BLSD:

- What is the financial status of the District's Food Service Fund?
- How can the District improve the efficiency and performance of its food service operation?
- Does food service management effectively use data to make strategic plans and operational decisions?

BLSD was timely in its submission of federal reimbursement claims, and had appropriate participation rates, meal prices, and data collection methods.

## Recommendations

**R6.1 BLSD should develop performance measures to ensure its food service operations are efficient. In addition, it should develop a comprehensive five-year forecast for the Food Service Fund, based on goals and objectives established in a strategic plan, to ensure that the Fund is self-sustaining. Furthermore, BLSD should develop and implement effective management oversight practices and assign these functions to an existing food service employee to mitigate further increases in deficits to the Food Service Fund.**

The District does not assess the efficiency of its food service operations using performance measures, such as those shown in **Table 6-3** or meals per labor hour. The food service operation also does not have established goals or objectives that are common in a strategic plan (see **financial systems** for a discussion on strategic planning). Nor does the District develop a five year forecast for the Food Service Fund to help determine future needs. The lack of planning and inefficiency of food service operations are primarily due to a lack of oversight and management. Though District administrators are involved in the food service function in a limited capacity, no manager has been assigned responsibility for the program. The financial condition of the District and the negative fund balance present in the Food Service Fund create a greater need for management oversight and strategic planning (see **R2.1**).

Another reason for operational inefficiencies may be the implementation of site-based kitchens for the preparation of meals in the new school buildings. Prior to completion of the Ohio School Facilities Commission's construction and rehabilitation of the District's schools in 2001 and 2003, BLSD operated a central kitchen at the high school with satellite kitchens at the middle and elementary schools. In general, central kitchens tend to be more efficient as they benefit from economies of scale in the preparation of food products. Also, the menus are more homogenous from building to building and, therefore, supplies can be bought in bulk more frequently (see also **R6.4**). Independent kitchens at multiple sites diminish the ability of a district to use economies of scale and planning to improve its budgetary outcomes.

Performance measures can be used to identify operational goals and evaluate progress toward the achievement of said goals. GFOA's *Using Performance Measurement for Decision Making* (2002) recommends that organizations base performance measures on program goals and objectives (see **R4.4** in **facilities** for further GFOA performance measurement recommendations).

The National Food Service Management Institute (NFSMI), through a nationwide task force, identified five performance measures essential to evaluating school food service

operations: (1) measure of profitability; (2) operating ratios; (3) meal and meal equivalent cost; (4) participation rates; and (5) measure of productivity.

Springfield Local School District (Summit County) tracks the performance of its food service operations on a monthly basis and evaluates the performance at the school and district level. Measures used to analyze the food service operations include profit/losses, labor costs per meal, meals per labor hour (MPLH), food costs per meal, and the level of free and reduced lunches at the school level. **Tables 6-2 and 6-3** provide practical examples of how performance measures can identify issues and benchmark performance in an effort to improve operational efficiency.

In the absence of a centralized management system for food service operations, BLSD cannot easily monitor the implementation and effectiveness of operational decisions. For example, head cooks at each building plan their menus and order food and supplies independent of each other (see **R6.4**) instead of one central person, and the District does not regularly evaluate staffing levels (see **R6.3**). This lack of planning has contributed, in part, to the continued deficit spending and negative fund balances experienced by the Food Service Fund. Martins Ferry CSD, for example, employs a Food Service Supervisor to manage the food service operations, including staffing and purchasing. This centralized management is a contributing factor to the operation's self-sufficiency.

By establishing operational performance measures and developing a plan of operation and management, BLSD will be able to better manage its food service function costs.

**R6.2 BLSD should charge all food service related expenses to the Food Service Fund, regardless of any future needs to transfer funds from the General Fund to cover operational deficits. By capturing and recording all food service expenses in the Food Service Fund, the District will have a more accurate picture of the operation's true cost, which will allow for improved decision-making.**

**Table 6-1** shows that the District does not report expenditures for purchased services in its Food Service Fund, and the Treasurer confirmed the District does not charge any portion of utility expenditures back to the Food Service Fund.

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

“All receipts and disbursements in connection with the operation of food service for school food service purposes and the maintenance, improvement, and purchase of equipment for school food service purposes shall be paid directly into and disbursed from the food service fund which shall be kept in a legally designated depository of the board. Revenues for the operation, maintenance,



improvement, and purchase of equipment shall be provided by the food service fund, appropriations transferred from the general fund, federal funds, and from other proper sources.”

One method for calculating utility expenses is to take the total space occupied by the food service operation (to include the kitchen, office, storage, and cafeteria) and calculate this total as a percentage of the total square footage of the school building. The allocation of expenses for purchased services such as gas, electric, and water/sewer using this percentage of space methodology is appropriate. For example, the food service operation occupies 7.5 percent of BLS D’s facilities. Applying these percentages to utility expenditures for FY 2007-08 would have resulted in additional food service costs of approximately \$27,000.

By not capturing all associated costs in the Food Service Fund, the District has an inaccurate depiction of the financial condition of its food service operation. Capturing all costs in the Food Service Fund will help BLS D evaluate the efficiency and performance of its food service operation and make more informed decisions.

*Financial Implication:* If the District allocated its expenditures to the Food Service Fund on a prorated basis (using the costs incurred in FY 2007-08), purchased services would increase by approximately \$27,000 in the Food Service Fund and decrease by the same amount in the General Fund.

**R6.3 BLS D should consider eliminating 17.5 food service labor hours per day. A reduction of labor hours would increase the number of meals per labor hour (MPLH) and bring staffing levels more in line with industry benchmarks, as well as help the District operate more efficiently. In reducing staff, the District should develop and implement a procedures manual and training guide to ensure that employees receive instruction on various processes and that they conduct their work in an efficient and effective manner.**

MPLH<sup>5</sup> measures a food service operation’s productivity and efficiency. The more meal equivalents served per day, the greater the efficiency. **Table 6-3** compares BLS D’s actual food service labor hours with the industry standard<sup>6</sup> for efficient operations, which takes into consideration the size of the food service operation.

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

<sup>6</sup> The industry standard, found in *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), assumes a greater level of productivity with a higher number of meal equivalents served, and is based on a convenience system with high productivity.

**Table 6-3: Meals per Labor Hour**

<b>Building</b>	<b>Meal Equivalents Served per Day</b>	<b>Daily Labor Hours</b>	<b>Total Labor Hours Required</b>	<b>Labor Hours Over/(Under) National Standard</b>
Bellaire High School	456	36.0	24.0	12.0
Bellaire Middle School	487	27.0	25.6	1.4
Bellaire Elementary School	616	35.0	30.8	4.2
<b>Total</b>	<b>1,559</b>	<b>98.0</b>	<b>80.4</b>	<b>17.6</b>

Source: BLSL, ODE, NFSMI, *School Foodservice Management for the 21st Century*

**Table 6-3** indicates that at the District level, BLSL uses a total of 17.6 more labor hours than necessary to be efficient using the industry benchmark. Prior to the construction and renovation of its facilities in 2001 and 2003, the District operated a central kitchen from the high school and transported prepared meals to satellite kitchens. The District determined staffing levels when the new facilities were constructed and moved from centralized preparation of meals to on-site preparation. While the use of a centralized kitchen operation provides a greater opportunity for efficiency, the industry guidelines for MPLH outline standards for efficient operation in both centralized and site based kitchens. The District, however, did not consult any industry standards or benchmarks when determining food service staffing levels.

One method of ensuring maximum efficiency and reducing the level of labor hours required is to ensure that employee training in the functions of the operation and standard procedures is developed and implemented. The Food Service Supervisor at Chardon LSD (Geauga County) developed a comprehensive operation manual that communicates critical areas of departmental operations to District food service employees. This manual outlines board policies, cash control, receipt of goods, inventory procedures, ordering of food and supplies, production record keeping, sanitation and food safety, employee safety, and procedures for emergencies or in case of injury. Chardon LSD developed the manual using the Pinellas County Schools (Florida) Food Service Manual, based on the Florida Office of Program Policy Analysis and Government Accountability (OPPAGA) best practices.

Once an operations manual is developed, it can serve as an aid in training employees to ensure adherence to established procedures. According to *School Foodservice Management for the 21st Century* (Pannel-Martin, 1999), training is the key to a successful school food service program. Training must be an ongoing process and should take place not only for new employees, but also following new equipment purchases, when government regulations or other procedures are changed, and when the need arises for retraining. The National Registry of Food Safety Professionals recommends the following topical areas be included in training: food safety, food protection, receiving and storing food and supplies, and preparing and serving foods.

Staffing levels in excess of industry standards have contributed to BLSD's operational deficits. Reducing labor hours at each building will improve the efficiency of the operation and reduce expenditures for compensation, which **Table 6-2** indicates are significantly higher than the peer districts and Martins Ferry CSD on a cost per meal equivalent basis. Greater oversight and management will help the District to appropriately staff the food service operation. This can be facilitated through the use of operational performance measures and indicators.

*Financial Implication:* By reducing 17.5 labor hours within the food service operation, the District can reduce expenditures in the Food Service Fund by approximately \$69,000 in salaries and benefits and bring its cost per meal equivalent to a level more in line with peer districts.

**R6.4 BLSD should take steps to control the cost of food products and other supplies and materials associated with the food service operation by developing greater oversight of the purchasing process, obtaining competitive food prices, purchasing less expensive products, planning less expensive menus, and implementing “offer versus serve” District-wide. Furthermore, BLSD should assign responsibilities to a single head cook for the purchasing of supplies and materials. This head cook should be included in the food service budgeting process and receive monthly budget status reports on the funds available for the purchase of supplies and materials.**

The District does not have a centralized purchasing system for supplies and materials for food service operations. Instead, the head cook at each building is individually responsible for menu planning and the purchase of supplies and materials, while the Food Service Secretary is responsible for processing invoices. The District belongs to a cooperative purchasing consortium through the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA), and is able to make purchases at quantity pricing from two food service suppliers. BLSD also purchases from a local supplier and participates in the government commodity program. While the District participates in cooperative purchasing programs, there is no mechanism in place to effectively manage purchases and ensure it is receiving the most competitive pricing.

In FY 2007-08, BLSD spent \$1.43 per meal equivalent served on supplies and materials, or 43.0 percent more than the peers (see **Table 6-2**). Moreover, compared with Martins Ferry CSD, the District spent 47.0 percent more per meal equivalent for supplies and materials.

Similar to BLSD, Martins Ferry CSD makes purchases through the OME-RESA purchasing consortium. The Food Service Supervisor at Martins Ferry CSD, however, annually prepares a list of approved items head cooks can order, which limits the District's expenditures for food products and allows for a simple method of oversight and

management by the Supervisor. Another way to provide oversight of food purchases is to gain a better understanding of the costs per meal. At Springfield City School District (Clark County), the Supervisor of the food service operation developed a six-week rotation of meals for each school and determined the cost of each individual component on the menu.

According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), strategies to reduce food costs include:

- Obtaining competitive food prices,
- Purchasing a less expensive product,
- Planning less expensive menus, and
- Implementing “offer versus serve.”

The option of “offer versus serve,” where students are offered full meals but can take less, is only provided by BLSD at the high school. Students at the elementary and middle schools receive full meals regardless of whether or not they wish to eat the entire meals. In fact, Pannell-Martin indicates by implementing “offer versus serve,” an operation can reduce food waste by 10 to 20 percent and food costs by 10 to 12 cents.

The effect of implementing any of these four recommend practices would help the District reduce food costs to bring expenditures more in line with the peer district average.<sup>7</sup> In order to implement these practices, the District must ensure appropriate oversight and management of the food service operation (see **R6.1**).

The food service operation’s lack of management and oversight has contributed to the Food Service Fund’s negative fund balance. In order to reduce expenditures, the District must ensure processes are in place to reduce waste, purchase less expensive products, and obtain competitive food prices.

*Financial Implication:* By reducing supplies and materials expenses by just 15 percent (half the difference between the District and peers), BLSD can reduce the cost per meal equivalent by \$0.21 for an annual savings of \$42,000.

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<sup>7</sup> In order to reduce expenditures per meal equivalent for supplies and materials to the peer district average, BLSD would be required to cut expenditures by 30.0 percent. Moreover, in order to reduce supplies and materials expenditures per meal equivalent to that of Martins Ferry CSD, the District would have to make a 32.0 percent reduction in these expenditures.

## Financial Implications Summary

The following table presents a summary of the estimated annual savings and costs identified in recommendations presented in this section of the report. Only recommendations with quantifiable implications are listed.

### Summary of Financial Implications for Food Service

Recommendation	Estimated Annual Savings	Estimated Annual Cost
R3.6 and R3.7 Modify employee benefit package <sup>1</sup>	\$34,000	
R6.2 Charge all appropriate costs to the Food Service Fund		\$27,000
R6.3 Eliminate 17.5 labor hours	\$69,000	
R6.4 Implement cost saving strategies for purchasing	\$42,000	
<b>Total</b>	<b>\$145,000</b>	<b>\$27,000</b>

Source: AOS recommendations

<sup>1</sup> Implementation is subject to negotiations and assumes recommended personnel reductions.

**DISTRICT RESPONSE**

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## District Response

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The letter that follows is the Bellaire Local School District (BLSD or the District) official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on factual information presented in the report.

The client response notes that *“the performance audit made several suggestions and comparisons using peer groups that are similar but by no means the same”*. Although no two school districts are identical, AOS used an average of 10 similar districts so as to reduce the variances caused by unique circumstances within each district. BLSD administrators may use the comparisons as a threshold for performance, understanding that it represents a high level of achievement as the 10 peers are high performing, low spending districts.

Because of the financial condition of the District, the performance audit cost savings focused on the largest proportion of District expenditures, which was staffing and benefits. As BLSD is projected to have a large deficit, minimum standards were included in the audit for comparison purposes. Staffing level comparisons were discussed with District administrative staff in February and April 2009 and differences in BLSD’s operations and student population that might warrant higher staffing levels in a particular area were taken into consideration.

Though BLSD may have circumstances that administrators feel warrant higher levels of staffing (e.g. discipline or achievement-related), auditors recommend these decisions be tempered with the ability of the District to afford its desired service levels. In some instances, BLSD will need to consider alternative service delivery models to operate within the confines of its available resources. Failure to balance available resources and delivery of mission-critical services will contribute to BLSD’s financial decline and likely require more severe expenditure reductions in the future.

Finally, the Board of Education asked AOS for additional assistance in formulating its financial recovery plan. Although AOS will continue to provide BLSD with technical materials on an as-needed basis, ORC §3316.031(D) notes that the *Department of Education shall provide technical assistance to the district board in implementing proposals to eliminate the practices or budgetary conditions that prompted the declaration of fiscal caution and may make recommendations concerning the board’s proposals*. Further, Government Auditing Standards limit AOS’ ability to assist in the formulation of this plan. BLSD is encouraged to contact the Ohio Department of Education if the Board feels it needs direct assistance in formulating its plan for financial recovery.

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# BELLAIRE LOCAL SCHOOL DISTRICT

340 34th Street - Bellaire, OH 43906-1513 - 740 - 676-1826 - FAX 740 - 671-6002

John E. Stinoski  
Superintendent

Kevin Roseberry  
Administrative Assistant

Tara L. Boyer  
Treasurer/CFO



BOARD OF EDUCATION:

Norman Brutchey

Frank Danadic

Stephen M. Shallcross

Stanley Stein

Michael Wallace

July 16, 2009

Mary Taylor, Auditor of State  
Lausche Building  
615 Superior Ave. NW/ Twelfth Floor  
Cleveland, Ohio 44113-1801

RE: Bellaire Local School District Performance Audit

Dear Mrs. Taylor;

I would like to thank you and your staff for the information that was provided and discussed at our post audit conference on July 14, 2009. The information was very informative but has also created more questions than answers.

This Audit has made several suggestions and comparisons using peer groups that are similar but by no means the same. I would think a more in depth study that demonstrates the costs of meeting Federal goals and State performance levels in order to educate our students would be better than comparing them to other similar groups. If we are to compare, then let it be apples to apples.

There is a need to develop a Fiscal Policy and a Strategic Plan. We need more fiscal restraint in order to address our problem in the short term so that we can develop a long-term plan. I think we would be very open to have the help of your office for guidance through this process.

It is my suggestion that another meeting be scheduled to discuss formulating a plan to alleviate our current situation.

Please contact our Treasurer/CFO Tara Boyer for further discussion in this matter.

Sincerely,

A handwritten signature in cursive script that reads "Michael L. Wallace". The signature is written in black ink and is positioned above the printed name.

Michael L. Wallace, Bellaire Local School Board, President

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