Mary Taylor, CPA
Auditor of State

McDonald Local School District Performance Audit

June 8, 2010

Mary Taylor, CPA
Auditor of State

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

In accordance with Ohio Revised Code Section 3316.042, a performance audit was conducted in the McDonald Local School District, due to its fiscal emergency status. The functional areas assessed during the audit were financial systems, human resources, and general operations. These areas were selected because they are important components of District operations that support its educational mission, and because improvements in these areas can assist the District in improving its financial condition.

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

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

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

Sincerely,

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 8, 2010

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

EXECUTIVE SUMMARY

Executive Summary

Project History

Ohio Revised Code (ORC) § 3316.042 permits the Auditor of State (AOS) to conduct performance audits of any school district in a state of fiscal caution, watch or emergency and review any programs in which it believes that greater operational efficiency, effectiveness and accountability can be achieved. On October 15, 2009, the McDonald Local School District (MLSD or the District) was declared to be in a state of fiscal emergency based on anticipated deficits in fiscal year (FY) 2009-10 and the potential for deficits in future years. As a result, AOS initiated a performance audit of MLSD. Based on a review of MLSD's information and discussions with the District, the following functional areas were included in the performance audit:

- Financial Systems;
- Human Resources; and
- General Operations.

District Overview

MLSD operates under a locally elected Board of Education (BOE) consisting of five members, which is responsible for providing public education to students. The District is located in Trumbull County and encompasses the Village of McDonald and portions of surrounding townships. According to the United States Census Bureau, the population served by the District was 4,110 in the 2000 Census. The median household income was $41,386, similar to the national average of $41,994. In addition, 4.9 percent of individuals lived below the poverty line, well below the national average of 12.4 percent. Lastly, 83 percent of area residents had at least a high school education while 17 percent of residents had a bachelors degree or greater.[1]

MLSD is comprised of two school buildings: one elementary school (kindergarten through 6th grade) and one high school (7th grade through 12th grade). In FY 2008-09[2], the District reported employing a total of approximately 89 full-time equivalent (FTE) employees, including 5 administrative FTEs, 58 certificated teaching FTEs, and 26 classified and other support staff FTEs. According to the Ohio Department of Education's (ODE) Local Report Card, the District

[1] The median income, poverty, and education levels are reported by the United States Census Bureau for the 44437 zip code, which is the location of MLSD.
[2] Based on testimonial evidence from the Superintendent and documentation from the Treasurer, the District's staffing levels did not materially change in FY 2009-10.

provided educational services to an average daily membership of 914 students, met 25 of 30 performance standards, received the academic designation of Effective, and met the adequate yearly progress requirements. Finally, the District is using 3 buses to transport 106 students in FY 2009-10.

In FY 2008-09, MLSD's total General and Special Revenue Fund revenue per pupil equaled $7,623, while expenditures equaled $7,986.[3] By comparison, the peer average revenue per student was $9,314 and the expenditures equaled $9,014. Although MLSD ended FY 2008-09 with a deficit balance of $388,000 in the General Fund, the Treasurer is projecting a surplus of $130,000 for 2009-10, due to receipt of the proceeds of a $2.0 million State Emergency Loan. However, the District projects its financial status to decline each year thereafter, culminating with a projected deficit of approximately $5.1 million by FY 2013-14.

Financial Outlook

Table 2-4 in the **financial systems** section presents the framework for a financial recovery plan for MLSD that demonstrates the impact of the performance audit recommendations on the District's financial condition. The District will need to make difficult management decisions in order to improve its financial condition. Specifically, even when the financial implications for all performance audit recommendations are included, **Table 2-4** shows that the District is projected to experience a negative fund balance each year from FY 2010-11 through FY 2013-14. When also considering the District's low expenditure (see **Tables 2-2** and **2-3** in the **financial systems** section) and staffing levels (see **Table 3-1** in the **human resources** section), as well as its low local tax revenues and property valuation (see **Table 2-2**), this indicates that MLSD will likely need a combination of revenue increases and other expenditure reductions to effectively resolve the projected financial difficulties. However, the outcomes in **Table 2-4** are contingent upon the attainment of the District's 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, MLSD is encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Adopting a strategic plan (**R2.6**) and obtaining citizen feedback (**R2.8**) through surveys and other mechanisms would ensure that MLSD implements strategies to achieve financial recovery that are based on defined goals and objectives, and community input and desires.

[3] MLSD did not pay all its invoices in FY 2008-09, which would understate expenditures. However, the District's total expenditures per student in FYs 2006-07 and 2007-08 were also lower than the peer average in FY 2008-09.

Objectives

A performance audit is defined as an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. A performance audit provides objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

The overall objective of this performance audit is to assist the District in identifying strategies to reduce expenditures and, in turn, help improve its financial standing. The areas assessed in this performance audit include the following:

- ***Financial Systems:*** includes evaluations of MLSD's five-year financial forecast, revenue and expenditures, strategic planning, financial reporting and policies, oversight, pool costs, and budgeting and purchasing practices;

- ***Human Resources:*** includes analyses of District-wide staffing and salary levels, Education Management Information System (EMIS) reporting, collective bargaining agreements, employee benefits, special education costs, workers compensation, and sick leave usage; and

- ***General Operations:*** includes assessments of facility staffing and expenditure levels, overtime costs, energy management, transportation policies and costs, transportation operating efficiency and data reporting, and food service operations.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The ensuing recommendations comprise options that MLSD can consider to help improve its financial condition and operations.

Scope and Methodology

The performance audit of MLSD 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. AOS and the Performance Audit Section (PAS) are aware of, and have considered, the potential independence issue regarding undertaking performance audits of fiscal watch and emergency entities that are also being monitored by the AOS' Local Government Services Division (LGS) as fiscal supervisor. Because LGS is statutorily required to serve as fiscal supervisor, an independence impairment may exist

(GAGAS 3.14). However, under ORC 118.023 and consistent with the intent of the legislature and Auditor of State under this law, performance audits are a component of the activities undertaken by AOS to assist local governments in fiscal distress.

Audit work was conducted between November 2009 and February 2010, and data was drawn primarily from FYs 2008-09 and 2009-10. To complete this report, the auditors conducted interviews with District personnel, and reviewed and assessed information from MLSD, peer school districts, and other relevant sources. While some concerns with the reliability of the District's data were identified, using the data does not adversely impact the conclusions and recommendations in the performance audit. For more information, see **Tables 2-2** and **2-3** in the **financial systems** section; **Tables 3-1** and **3-2**, and **R3.1** in the **human resources** section; and **Tables 4-1** and **4-2**, and **R4.5** in the **general operations** section. Peer school district data and other information used for comparison purposes were not tested for reliability, although the information was reviewed for reasonableness.

AOS used four districts as peers for benchmarking purposes: Bristol LSD (Trumbull County), Columbiana EVSD (Columbiana County), Lowellville LSD (Mahoning County), and Southington LSD (Trumbull County). These districts were selected based upon demographic and operational data, and input from the Superintendent and Treasurer. External organizations and sources were also used to provide comparative information and benchmarks. They include the Government Finance Officers Association (GFOA), the Ohio Department of Education (ODE), the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), and the National Center for Education Statistics (NCES).

The performance audit process involved significant information sharing with MLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, MLSD 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.

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

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following are noteworthy accomplishments that were identified during the course of the performance audit.

- **Total Staffing Levels:** Despite overstating FTEs in some categories, MLSD employs fewer total FTEs per 1,000 students when compared to the peer average.

- **Custodian Staffing Levels:** MLSD employs 2.0 fewer custodial FTEs when compared to industry benchmarks. Additionally, when comparing applicable costs and services, the District's purchased service costs per square foot in FY 2008-09 are consistent with AS&U.

- **Spending Levels:** MLSD's total expenditures per pupil are lower than the peer average in FY 2008-09 (see **Tables 2-2** and **2-3**, and accompanying discussion), even when considering the impact of not paying invoices. The lower expenditure levels, in conjunction with the lower staffing levels, show that the District is limiting costs in the areas that have the most significant impact on its financial condition.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide MLSD with options to enhance its operational efficiency and improve its long-term financial stability. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations in their entirety. The following summarizes the key recommendations from the performance audit report. In addition to the recommendations, the sections of the report note assessments conducted in the performance audit that did not warrant recommendations.

In the area of financial systems, MLSD should:

- Analyze and use **Table 2-4** to evaluate the effect of the recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit and other appropriate actions to avoid the projected operating deficits. For example, in addition to the recommendations in this performance audit that identify a potential for sharing services, the District should consider the feasibility of partnering with other districts to share applicable services. Furthermore, the Treasurer should update **Table 2-4** on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, MLSD should regularly discuss options for reducing costs/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

- Adopt a policy that outlines the process for developing the financial forecast, including the participation of other District administrators, the frequency of updates, and the general system to use to prevent, detect, and correct errors and omissions before the forecast is presented to the Board. Subsequently, the District should develop formal procedures that align with the Board policy. In addition, the Treasurer should revise future projections to eliminate the overstatement in State funding for FY 2010-11 and consider including estimated costs associated with negotiated wage increases, severance payouts and early retirement incentives. The Treasurer should also consider expanding the forecast notes to fully explain the projections from FY 2010-11 through FY 2013-14.

- Proactively manage finances. This could be accomplished by adopting more stringent policies for preparing the financial forecast, making purchases, and defining minimum fund balance requirements; forming an audit committee to assist in providing financial oversight and guidance; attending regular training on school finance issues; and requiring the Treasurer to provide more information on finances on a monthly basis.

- Prepare a budget document that includes pertinent elements. The District should also design the budget process to allow for stakeholder feedback. In order to improve budgetary enforcement efforts and accountability, the District should adopt building and department specific budgets, and prepare monthly status reports for the Board and appropriate administrators. MLSD should hold administrators accountable for their budgetary performance and obtain approval from the Board for budget modifications. Finally, MLSD should adopt a budget calendar that specifies the tasks and timelines leading to the adoption of the annual budget.

- Require the Treasurer's Office to approve and issue purchase orders to department heads, and record encumbrances, in advance of making purchases. MLSD should also develop procedures to ensure that vendor invoices are paid in a timely manner to avoid late fees, lost discounts, and service termination. Lastly, MLSD should develop a comprehensive purchasing policy that addresses the use of price quotes, competitive bidding, cooperative purchasing, consortiums, and requests for proposals.

In the area of human resources, MLSD should:

- Calculate and report classified FTEs in EMIS according to the established definitions. To help prevent and detect future errors, the District should consider developing policies and procedures for gathering, entering and verifying EMIS information. The District should also consider allowing staff to become certified as Ohio Association of EMIS Professionals (OAEP).

- Consider reducing regular education staffing levels for FY 2010-11 by 7.0 FTEs. The District should ensure proposed reductions will permit compliance with new operating requirements and weigh decisions to reduce teacher staffing levels against the impact the reductions may have on the quality of education.

- Negotiate to eliminate the health insurance related bonuses, switch all employees to the lower premium plan currently required for employees hired after July 1, 2008, and require all employees to contribute at least 15 percent of the monthly premium costs.

- Review the non-bargaining office/clerical salary schedule and job responsibilities in relation to area and peer school districts, and appropriate benchmarks; and consider negotiating to revise the salary schedule and/or freeze wages for operations staff, and reduce the supplemental compensation rates to be more comparable to the peers.

- Conduct a comprehensive cost-benefit analysis prior to offering future early retirement incentives (ERI), including an evaluation of the ERI scheduled for FY 2010-11.

- Conduct a comprehensive review of it special education program to identify strategies for improving overall cost effectiveness[4]. These strategies could include partnering with other districts to share certain services through in-house resources, and annually reviewing and modifying its contracted services to improve overall cost effectiveness. In particular, the District should compare the cost of services from the Trumbull County Educational Service Center (TCESC) to other neighboring educational service centers, private service providers, and the cost of bringing the functions in-house.

In the area of general operations, MLSD should:

- Strive to reduce its maintenance and operations overtime costs. This can be accomplished by adopting a building access control plan, limiting access to the school buildings during non-school hours, eliminating or reducing the minimum call-in pay provisions in the classified collective bargaining agreement, and consistently charging the cost recovery fees associated with outside groups using the District's facilities. Additionally, the District should track individuals granted access during non-school hours and the reasons for such access. Furthermore, the District should review the fees for athletic ticket to ensure they reflect all applicable costs.

- Develop an energy management and conservation program by creating formal policies and procedures. Subsequently, the District should distribute and discuss the policies and procedures with the administration, faculty, staff, and students to educate and train them about energy conservation and ensure implementation of the appropriate energy management and conservation practices. The District should also review services from

[4] When conducting the review of the special education program, MLSD should consult with ODE to ensure proposed changes will permit compliance with minimum mandated spending and operating requirements.

industry sources that would help improve energy management and compare pricing to consortiums. In addition, MLSD should assign an employee to monitor District-wide and building-level utility consumption.

- Eliminate at least one bus from the active fleet by expanding the use of cluster stops where feasible to ensure student safety; staggering the elementary school schedule to allow more multi-tiered routing; conducting periodic surveys of parents to determine the number of students that will be using other methods of transportation; and adjusting routes throughout the year, when necessary, to maximize routing efficiency. In addition, the District should review the composition of spare and active buses in relation to its transportation needs to determine if any spare buses could be eliminated. MLSD should also review its practice of providing transportation services to students that live within one mile of their school buildings. As the District reviews the aforementioned strategies, it should consider other alternatives for providing transportation services, such as sharing some or all services with neighboring school districts. Lastly, the District should review the new transportation funding formula to evaluate whether expanding transportation services to 7-12th grade students would be more cost-effective than maintaining current service levels and eliminating at least one active bus.

- Establish formal policies and procedures to ensure accurate T-forms are prepared, reviewed and reconciled before submission to ODE. As part of these procedures, the Treasurer's Office and Transportation Supervisor should be required to use the available data verification tools, compare current year T-form information to prior years, and reconcile all significant variances. The policies should also require the District to maintain all supporting documentation, file the T-forms within the mandatory timeframes, and provide periodic training to the Treasurer and Transportation Supervisor on T-form preparation and submission procedures. Furthermore, MLSD should carefully review its reported ridership and mileage for accuracy, including students reported as living within one mile from school.

- Address the deficits in the Food Service Fund by purchasing and using a point-of-sale system to monitor student purchases, manage inventory and maximize participation; expanding the use of competitive pricing (purchasing cooperatives, competitive bidding, etc) when purchasing supplies and materials; implementing a breakfast program; negotiating to reduce the salary schedule for food service employees; and reviewing other possible service delivery alternatives including outsourcing services or collaborating with other entities to share services. In addition, MLSD should charge all related costs to the Food Service Fund and subsequently review the meal prices on an annual basis.

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.

Table 1-1: Summary of Performance Audit Recommendations

	Estimated Annual Savings	Estimated Implementation Costs	Estimated Annual Revenue Enhancements
Recommendations Not Subject to Collective Bargaining			
R2.7 Revise purchasing and vendor payment procedures.	$42,500		
R3.2 Reduce regular education staffing by 7.0 FTEs in FY 2010-11.	$282,000 [1]		
R3.5 Reduce total salary costs for non-bargaining office/clerical employees.	$13,000		
R3.8 Eliminate the early retirement incentive.	$44,000		
R3.9 Reduce special education costs.	$179,000		
R4.2 Reduce facility related overtime costs.	$7,000		
R4.3 Reduce utility costs.	$44,000		
R4.4 Eliminate one active bus.	$41,000		
R4.6 Investigate alternatives for purchasing fuel.	$2,000		
R4.6 File for fuel tax refunds.			$700
R4.7 Resolve deficits in Food Service Fund. [2]	$27,000		
R4.7 Purchase point-of-sale system.		$5,700 (one-time) $250 (annual)	
Total – Not Subject to Collective Bargaining	**$681,500**	**$5,950**	**$700**
Recommendations Subject to Collective Bargaining			
R3.3 Eliminate health insurance bonuses, switch employees to the lower premium plan, and require all employees to contribute 15 percent of premium costs.	$154,000		
R3.4 Reduce life insurance coverage levels.	$1,000		
R3.7 Reduce supplemental contract compensation.	$36,000		
Total – Subject to Collective Bargaining	**$191,000**		
TOTAL – ALL RECOMMENDATIONS	**$872,500**	**$5,950**	**$700**

Source: AOS Recommendations

[1] This would be reduced to approximately $201,000 if the District re-hires 2 FTEs in FY 2011-12 and FY 2012-13, and further reduced to $121,000 if the District re-hires 2 additional FTEs in FY 2013-14.

[2] This is assumed to equate to a positive net gain in the Food Service Fund, which could impact revenues and costs.

This page intentionally left blank.

FINANCIAL SYSTEMS

Financial Systems

Background

This section of the performance audit focuses on financial systems within the McDonald Local School District (MLSD or the District), including an assessment of the District's five-year forecast. MLSD's operations were evaluated against information from relevant sources, such as the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), Ohio Revised Code (ORC), and selected peer districts.[1]

Financial History and Condition

ORC § 3316.03 allows the Auditor of State (AOS) to place a school district in fiscal watch or fiscal emergency if certain conditions are met. MLSD was placed in fiscal emergency on October 15, 2009 based on an anticipated deficit of approximately $2.0 million in FY 2009-10. As a result of the fiscal emergency declaration, a five member Financial Planning and Supervision Commission (Commission) was convened for MLSD in accordance with ORC § 3316.05. The Commission is responsible for re-establishing the fiscal integrity of MLSD, and eliminating the conditions that created the declaration of fiscal emergency. Since its inception, the Commission has regularly held public meetings to discuss important issues related to the operations of the District and the development of a statutorily required financial recovery plan. Pursuant to ORC § 3316.06, the financial recovery plan will serve as a broad outline for the management decisions the Commission must make to restore MLSD to financial solvency. As of January 2010, the Commission has not adopted a recovery plan for MLSD.

MLSD is funded at the local level through a variety of voter approved levies. Specifically, the District levies 41.9 mills for the General Fund that are continuing in nature. However, due to the impact of inflation, the effective tax rate for these levies has declined to 23.9 mills. The District also receives monies through two separate emergency levies that passed in 2007 and 2009. The 2007 emergency levy equals 3.9 mills and generates approximately $200,000 annually. The 2009 emergency levy equals 4.9 mills and is estimated to generate approximately $130,000 in FY 2009-10, and $260,000 annually thereafter. Finally, MLSD collects on a 2.0 mill permanent improvement levy, a 3.2 mill bond levy that is associated with the District's participation in the Ohio Schools Facilities Commission (OSFC) program in FY 2001-02 (see **general operations** section), and a 0.5 mill classroom maintenance levy that is also associated with the OSFC program. In total, MLSD's property tax levies are estimated to generate approximately $1.4 million in local revenues for the General Fund in FY 2009-10.

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology. The "peer average" used in the audit comprises four school districts, unless noted otherwise.

Table 2-1 presents the historical and projected revenues and expenditures from the forecast the Treasurer prepared in October, 2009.

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

	Actual 2006-07	Actual 2007-08	Actual 2008-09	Forecast 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14
Real Estate Property Tax	$1,176	$908	$1,214	$1,076	$1,054	$1,033	$1,012	$992
Tangible Property Tax	164	112	48	7	0	0	0	0
Unrestricted Grants-in-Aid	3,777	3,839	3,838	3,460	3,725	3,650	3,576	3,501
Restricted Grants-in-Aid	12	4	2	29	29	29	29	29
Restricted Federal	0	0	0	236	236	0	0	0
Property Tax Allocation	164	190	213	320	320	320	320	291
Other Revenues	865	958	967	1,067	1,064	1,064	1,064	1,060
Total Operating Revenues	**$6,158**	**$6,011**	**$6,282**	**$6,195**	**$6,428**	**$6,096**	**$6,001**	**$5,873**
Salaries & Wages	$3,882	$4,012	$4,222	$4,123	$4,162	$4,211	$4,206	$4,297
Fringe Benefits	1,476	1,603	1,291	1,644	1,703	1,766	1,824	1,898
Purchased Services	659	917	711	928	810	794	778	762
Supplies, Materials & Textbooks	166	296	291	262	257	250	246	241
Capital Outlay	0	18	7	6	0	0	0	0
Debt Service	0	0	207	1,425	1,003	1,003	3	3
Other Expenditures	70	72	66	102	75	75	75	75
Total Operating Expenditures	**$6,253**	**$6,918**	**$6,795**	**$8,490**	**$8,010**	**$8,099**	**$7,132**	**$7,276**
Net Transfers/Advances	0	0	0	(33)	(35)	(35)	(35)	(35)
Note Proceeds	250	800	160	600	0	0	0	0
State Emergency Loan	0	0	0	2,001	0	0	0	0
Other Financing Sources	7	7	14	0	0	0	0	0
Net Financing	**$ 257**	**$ 807**	**$ 174**	**$2,568**	**($35)**	**($35)**	**($35)**	**($35)**
Result of Operations (Net)	**$162**	**($100)**	**($339)**	**$273**	**($1,617)**	**($2,038)**	**($1,166)**	**($1,438)**
Beginning Cash Balance	6	168	68	(271)	3	(1,614)	(3,652)	(4,818)
Ending Cash Balance	**$168**	**$68**	**($271)**	**$ 3**	**($1,614)**	**($3,652)**	**($4,818)**	**($6,256)**
Encumbrances	3	9	117	3	25	25	25	25
Ending Fund Balance	**$165**	**$59**	**($388)**	**$0**	**($1,639)**	**($3,677)**	**($4,843)**	**($6,281)**
New Levy (Cumulative)	0	0	0	130	390	650	910	1,170
Revised Ending Fund Balance	**$165**	**$59**	**($388)**	**$130**	**($1,249)**	**($3,027)**	**($3,933)**	**($5,111)**

Source: MLSD October 2009 five-year forecast
Note: Totals may vary due to rounding.

Table 2-1 shows that the Treasurer projected the District to end FY 2009-10 with a positive fund balance of approximately $130,000, but encounter deficits each year thereafter. **Table 2-1**

includes the proceeds of a State Emergency Loan ($2.0 million) in FY 2009-10 and the impact of the 4.9 mill emergency levy passed in November, 2009. Furthermore, the District has not yet prepared a financial recovery plan. As a result, **Table 2-1** assumes the District will continue the current operations without any adjustments to staffing levels or negotiated items.

Revenue and Expenditure Comparisons

Table 2-2 compares the District's revenues by source and expenditures by object for the General Fund and Special Revenue Funds to the peer average on a per student basis for FY 2008-09.

Table 2-2: Revenues by Source, Expenditures by Object – Per Pupil

	MLSD	**Peer Average**
Local Taxes	$1,432	$2,949
Intergovernmental Revenues	$4,811	$4,805
Other Revenues	$1,380	$1,560
Total Revenue	**$7,623**	**$9,314**
Wages	$4,821	$4,672
Fringe Benefits	$1,443	$1,535
Purchased Service	$987	$1,834
Supplies & Materials	$351	$299
Capital Outlays	$42	$102
Debt Service	$232	$3
Miscellaneous	$110	$298
Other Financing Uses	$0	$272
Total Expenditures	**$7,986**	**$9,014**

Source: MLSD and peer average year-end financial information

Table 2-2 shows that MLSD's revenues per pupil are significantly lower than the peer average. The lower revenues per pupil are primarily due to local taxes. In FY 2008-09, MLSD's local tax revenues per student of $1,432 were 51 percent lower than the peer average of $2,949. The lower revenues per pupil are due to lower property valuations. More specifically, data published by the Ohio Department of Taxation (ODT) in 2008 shows that MLSD's total property valuation was $54,586,470 and valuation per student was $71,690. These amounts are well below the respective peer averages ($91,131,381 and $112,076)[2]. Furthermore, ODT's data in 2008 shows that MLSD's effective tax rate (26.9 mills), total valuation and valuation per student are lower than the respective Trumbull County averages (30.8 mills, $183,247,184, and $117,225).

[2] Even when excluding Columbiana EVSD's significantly higher total valuation and valuation per student, the adjusted peer averages are still higher than MLSD ($62,984,968 and $93,743). The District's total valuation is lower than three peers while its valuation per student is lower than each peer.

Likewise, ODT reports that MLSD's property valuation per student ranks as the 577th highest out of 609 ranked school districts Statewide.

Table 2-2 also shows that the District's total expenditures were significantly lower than the peer average, with wages, supplies and materials, and debt service being the only line-items that exceeded the peer averages. The higher expenditures for employee wages are attributed to a generous salary schedules for classified staff and non-bargaining clerical staff, high supplemental pay rates, and severance costs associated with employees retiring through the early retirement incentive program (see **R3.5**, **R3.6**, **R3.7** and **R3.8** in the **human resources** section). The higher supplies and materials expenditures are due, in part, to a lack of strong policies and procedures to govern the purchasing process (see **R2.7**). The higher debt service expenditures are due to the District repaying a $200,000 tax anticipation note that was issued in January 2008 (FY 2007-08), but not repaid until November 2008 (FY 2008-09).

It should be noted that certain line-item comparisons in **Table 2-2** may be understated because the District did not pay all its invoices in FY 2008-09, such as utilities which would impact the purchased services line-item (see **R2.7**). Nevertheless, the District's total expenditures per student ($7,986) in FY 2008-09 are relatively consistent with the average from FY 2006-07 to FY 2007-08. Specifically, the District's total General Fund and Special Revenue Fund expenditures equaled $7,403 per student FY 2006-07 and $8,171 per student in FY 2007-08, for a two-year average of $7,787. Moreover, the higher expenditures per student of $8,171 in FY 2007-08 are 9.4 percent lower than the peer average.

Table 2-3 shows the expenditures posted to various Uniform School Accounting System (USAS) function codes for MLSD and the peer districts on a per pupil basis in FY 2008-09.

Table 2-3: FY 2008-09 Governmental Expenditures per Pupil

	MLSD	Peer Average
Instructional Expenditures	**$5,170**	**$5,425**
Regular Instruction	$4,299	$4,577
Special Instruction	$821	$793
Vocational Education	$50	$31
Adult/Continuing Education	$0	$0
Other Instruction	$0	$25
Support Service Expenditures	**$2,330**	**$2,982**
Pupil Support Services	$267	$536
Instructional Support Services	$84	$180
Board of Education	$54	$45
Administration	$594	$687
Fiscal Services	$248	$308
Business Services	$0	$23
Plant Operation & Maintenance	$928	$759
Pupil Transportation	$137	$415
Central Support Services	$18	$29
Non-Instructional Services	**$0**	**$0**
Extracurricular Activities	**$301**	**$362**
Total Operational Expenditures	**$7,801**	**$8,768**
Facilities & Construction	$0	$644
Debt Service	$549	$355
Total Governmental Fund Expenditures	**$8,350**	**$9,767**

Source: MLSD and peer district FY 2008-09 year-end financial information
Note: Totals may vary due to rounding.

Table 2-3 shows that MLSD's total governmental operating and total governmental expenditures per student are significantly lower than the peer averages. In addition, the only line-items where the District's expenditures exceeded the peer averages include special instruction, vocational instruction, board of education, plant operation and maintenance, and debt service. The higher board of education costs are due to a coding error in which $23,000 of education service contract costs were included in the board of education line-item[3]. In addition, MLSD's Board of Education recently voted to reduce their pay from $125 per meeting to $100, which will generate future savings in this line-item. Although MLSD's vocational education expenditures are higher than the peer average, the District does not have any other instruction costs while the peers reported other instruction costs of $25. In total, the District's spending for vocational and other instruction ($50) is comparable to the combined peer average ($56). The higher debt service costs are due to the District repaying a $200,000 tax anticipation note that was issued in January 2008 (FY 2007-08), but not repaid until November 2008 (FY 2008-09).The higher special

[3] Assuming these costs should be captured as an instructional expenditure, the District's overall revised instructional expenditures per pupil ($5,196) would still be lower than the peer average.

instruction and plant, operation and maintenance costs are addressed in the **human resources** and **general operations** sections of this report.

Although it is likely that certain line-item comparisons shown in **Table 2-3** are understated due to the District not paying all its invoices in FY 2008-09, the total expenditures per student ($8,350) are relatively consistent with the average from FY 2006-07 to FY 2007-08. Specifically, the District's total governmental fund expenditures equaled $7,851 per student in FY 2006-07 and $8,831 per student in FY 2007-08, for a two-year average of $8,341. Furthermore, the higher expenditures per student of $8,831 in FY 2007-08 are 9.6 percent lower than the peer average.

Audit Objectives for the Financial Systems Section

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

- What has been the District's financial history?
- Does the District maintain an effective process for preparing financial forecasts?
- Is the District's budgetary process consistent with leading practices (includes strategic planning)?
- What level of financial oversight does the Board of Education (the Board) provide?
- Does the District have an effective system of communicating financial information to stakeholders?
- How do the District's revenues and expenditures per student compare with the peer districts?
- Is the District's purchasing process consistent with leading practices?
- How does the District ensure cost-effective pool operations?
- What is the financial outlook of the District when considering the recommendations in the performance audit?

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The performance audit identified the District's expenditure levels as noteworthy accomplishments. Even when considering the impact of not paying invoices, MLSD's total expenditures per pupil are lower than the peer average in FY 2008-09 (see **Tables 2-2** and **2-3**, and accompanying discussion). These tables, in conjunction with the staffing analyses in the **human resources** and **general operations** sections, show that the District is limiting costs in the areas that have the most significant impact on its financial condition.

Recommendations

Financial Forecast

R2.1 The Board should adopt a policy that outlines the process for developing the financial forecast, including the participation of other District administrators, the frequency of updates, and the general system to use to prevent, detect, and correct errors and omissions before the forecast is presented to the Board. Subsequently, the District should develop formal procedures that align with the Board policy. To better understand the forecast and its components, the Board should consider requiring that the document present more detailed historical and projected information, supporting schedules, and additional explanations (also see R2.2), which should be conveyed in the adopted policy and related procedures.

On May 26, 2009, the District submitted a five-year financial forecast to the Ohio Department of Education (ODE) that projected positive ending fund balances of approximately $33,000 in FY 2008-09, $42,000 in FY 2009-10, $71,000 in FY 2010-11, $108,000 in FY 2011-12 and $113,000 in FY 2012-13.[4] Despite these projections, the District was placed in fiscal emergency on October 15, 2009 due to a projected deficit of approximately $2.0 million for FY 2009-10, which was based on a forecast prepared by the Local Government Services Division (LGS) of the Auditor of State's Office. The large variances are attributed to the District's forecast using optimistic assumptions for certain line-items and excluding approximately $1.4 million in required debt service payments.[5] In addition, although the District's forecast notes include general explanations for certain line-items (property taxes, State funding, wages and benefits), they lack information necessary to fully understand these line items (see **R2.2**) and do not include any assumptions, explanations or supporting documentation for the property tax allocation, other revenue, note proceeds, capital outlay, debt service, and other expenditure line-items.

MLSD does not have Board policies or procedures that outline the process for preparing the financial forecast, the frequency of updates, the roles of other administrators, or the level of note disclosures and supporting materials to be used in developing the forecast.[6] In practice, the District primarily relies on the Treasurer to develop the forecast and to

[4] This forecast was prepared by the prior Treasurer.

[5] Specifically, the District projected total revenues and expenditures to equal approximately $6.5 million and $6.4 million in FY 2009-10, respectively. By comparison, LGS projected total revenues and expenditures to equal approximately $6.2 million and $8.5 million, respectively.

[6] During the course of this audit (November 16, 2009), the Board adopted a policy indicating that the Superintendent and Treasurer are responsible for developing the financial forecast at least twice a year to meet ODE filing requirements. However, MLSD still lacks policies and procedures that address the process for developing the forecast, the level of note disclosures and supporting materials to be maintained.

determine the appropriate level of note disclosures, supporting documentation and frequency of updates. Furthermore, the forecast is not linked to a comprehensive strategic plan (see **R2.6**), and input from the Board and other administrators is usually limited to answering questions during a public presentation after the forecast has already been developed. As a result of this process, the forecast does not represent a cohesive view of the District's future operational and educational initiatives, which potentially limits its usefulness as a management tool.

According to the *Guide for Prospective Financial Information* (American Institute of Certified Public Accountants (AICPA), 2008), financial forecasts may be prepared as the output of a formal system. A formal system consists of a set of related policies, procedures, methods, and practices that are used to prepare the financial forecast, monitor attained results relative to the forecast, and prepare revisions to, or otherwise update, the forecast. Financial forecasts may also be prepared via a formal work program. If such a program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. This publication also includes numerous guidelines for preparing and reviewing financial forecasts, including the following:

- Key factors should be identified as a basis for assumptions. Assumptions used in preparing financial forecasts should be appropriate, reasonable, and well-supported and could include market surveys, general economic indicators, trends and patterns developed from the entity's operating history (historical trends), and internal data analysis.

- Financial forecasts should be prepared in good faith based on appropriate assumptions. The potential to mislead a third-party reader of financial forecasts is greater than that for historical financial statements. Accordingly, a forecast preparer should make a good faith effort to ensure that the forecast assumptions are neither unduly optimistic nor pessimistic[7].

- The preparation of financial forecasts ordinarily involves the use of large amounts of data and requires many calculations. This data may be processed without the benefit of the checks and balances inherent in a historical accounting system, which makes the preparation of financial forecasts particularly susceptible to clerical errors. Procedures should be established to facilitate the prevention, detection, and correction of such errors.

- The process used to develop financial forecasts should provide adequate documentation of the financial forecasts and the process used to develop them. Documentation involves recording the underlying assumptions and summarizing

[7] However, it should be noted that the purpose of a financial projection may require optimism or pessimism.

the supporting evidence for the assumptions. As a result of well supported documentation, users can trace forecasted results back to the support for the basic underlying assumptions.

- Financial forecasts should be consistent with the expected economic effects of anticipated strategies, programs, and actions of the agency, including those being planned in response to expected future conditions.

- Financial forecasts are important statements of the future financial results of an entity. The ultimate responsibility for financial forecasts rests with the responsible party at the highest level of authority. Accordingly, the process used to prepare financial forecasts should include adequate review and approval at the appropriate levels of authority. Additional reviews at intermediate levels of authority enable the financial forecast to be evaluated from several vantage points by those who will be responsible for the subsequent operations.

Developing a policy and related procedures which reflect the abovementioned items will help ensure that future forecast documents can be used as a reliable management tool. This, in turn, would help MLSD develop appropriate strategies for addressing anticipated financial difficulties before they actually occur.

R2.2 The Treasurer should revise future projections to eliminate the overstatement in State funding for FY 2010-11 and consider including estimated costs associated with negotiated wage increases, severance payouts and early retirement incentives. In addition, the Treasurer should consider expanding the forecast notes to fully explain the projections from FY 2010-11 through FY 2013-14, including the specific assumptions and supporting analyses; the use of other resources to help develop assumptions (i.e. the County Auditor's Office, the Trumbull County Educational Service Center, etc); the District's ability to meet State mandated spending requirements (e.g., instructional and capital set-aside requirements); and the rationale when deviating from historical trends. Taking these steps will help ensure that the forecast reflects variables that will likely impact future operations and help improve the readers' understanding of the District's financial condition.

Table 2-1 shows that the Treasurer projected MLSD to end FY 2009-10 with a positive fund balance of approximately $130,000. By comparison, LGS prepared a one-year forecast in early October that projected the District to end FY 2009-10 with a deficit of approximately $2.0 million. The only differences between the two projections is that **Table 2-1** includes the proceeds of an approved State Emergency Loan ($2.0 million) and the 4.9 mill property tax levy the citizens passed in November, 2009 ($130,000). These adjustments appear reasonable as they account for events that occurred after the LGS forecast was prepared.

Table 2-1 also shows that the Treasurer projected the District's ending fund balance to decline substantially from FY 2010-11 through FY 2013-14, despite the proceeds of the new levy. The projections for these years are based on carrying the LGS assumptions for FY 2009-10 forward through the remaining years, negotiated wage increases and employee benefit levels, and opinions on future spending in purchased services, supplies and materials, and capital outlay.

The review of the District's five-year forecast identified instances where additional note disclosures would improve the reader's understanding of the forecast. Specific examples include the following:

- **Real Estate Taxes**: MLSD experienced an average annual increase in real estate property taxes of approximately one percent from FY 2004-05 through FY 2008-09. However, **Table 2-1** shows that the real estate taxes are projected to decline two percent annually from FY 2010-11 through FY 2013-14. In reviewing the forecast notes, it is unclear why the projections deviate from the historical trends, the specific impact of the economic downturn on this revenue source, or if the Trumbull County Auditor's Office was consulted when developing the projections for these years. Through subsequent discussions, the Treasurer indicated that the two percent decline represents an effort to be conservative based on a consideration of the current economic downturn, but that the County Auditor's Office was not consulted when developing the projection.

- **State Funding**: MLSD experienced an average annual increase in State funding of approximately one percent from FY 2004-05 through FY 2008-09. **Table 2-1** shows that the Treasurer projected total State funding to equal approximately $3.7 million in FY 2009-10, which is comprised of unrestricted grants-in-aid ($3.5 million), restricted grants-in-aid ($29,000) and restricted federal grants-in-aid ($236,000). However, total State funding is projected to increase approximately 8.0 percent in FY 2010-11 ($4.0 million), and then decline approximately 2.0 percent annually thereafter. In reviewing the forecast notes, it is unclear what causes the significant increase in FY 2010-11, why the projections for the remaining years deviate from the historical trends, or the specific assumptions concerning future student enrollment. Through subsequent discussions, the Treasurer indicated that the large increase in FY 2010-11 is due to a mistake that resulted in the projection being overstated by approximately $236,000. The Treasurer also indicated that the projected decline in the remaining years represents an effort to be conservative based on the uncertainty of the State's budget difficulties, and that student enrollment is assumed to remain constant.

- **Employee Wages and Benefits**: The forecast notes indicate that the negotiated wage increases (NWIs) for certificated and classified staff are based on the current collective bargaining agreements, both of which are effective from September 1, 2007 through August 31, 2010 and stipulate 2.5 percent NWIs for FY 2009-10. The forecast notes also indicate that the anticipated severance and early retirement incentive payments for FY 2009-10 are based on known retirements and current obligations. However, the forecast notes do not indicate the projected level of NWIs or severance and early retirement incentives for FY 2010-11 through FY 2013-14. Through subsequent discussions, the Treasurer indicated that the forecast assumes the District will not incur any NWIs from FY 2010-11 through FY 2013-14, and all salary increases will be limited to employee advancements on the step schedule. The Treasurer also indicated that the forecast assumes constant staffing levels and does not include estimated severance and early retirement incentive costs.

- **Purchased Services and Supplies and Materials:** MLSD's expenditures for purchased services and supplies and materials increased an average of approximately 7.0 percent annually from FY 2004-05 through FY 2008-09. However, **Table 2-1** shows that the combined purchased services and supplies and materials are projected to increase approximately 19.0 percent in FY 2009-10, and then decline two percent annually thereafter. The forecast notes indicate that the large increase in FY 2009-10 is due to paying for obligations that originated from FY 2008-09. However, the notes do not include any explanation of how the two percent annual reduction in the remaining years was determined, or if specific programs, services, and materials have been identified for reduction or elimination. Furthermore, the forecast notes do not indicate if the projections allow for compliance with the instructional material and capital improvement spending requirements. Specifically, ORC sections 3315.17 and 3315.18 require school districts to spend a minimum of three percent of the preceding years' state funding formula amount on instructional materials and another three percent on capital improvements. Through subsequent discussions, the Treasurer indicated that the projected decline in the purchased services and supplies and materials expenditures is based on an opinion that the District needs to reduce its discretionary spending. The Treasurer also indicated that he did not consider the instructional material and capital improvement spending requirements when developing the forecast.

Budget Management

R2.3 The Board should be more proactive in overseeing the District's finances. To accomplish this, the Board should adopt more stringent policies for preparing the financial forecast (see R2.1), making purchases (see R2.7) and defining minimum fund balance requirements; form an audit committee to assist in providing financial oversight and guidance; attend regular training on school finance issues; and

require the Treasurer to provide more information on finances (e.g., financial reports, supporting detail and explanations) on a monthly basis. Collectively, these efforts will help ensure that the Board has a full understanding of the District's financial condition prior to making future decisions.

Although MLSD was placed in fiscal emergency on October 15, 2009, the District's financial condition had been declining since FY 2002-03. More specifically, MLSD's audited financial statements report deficit ending fund balances in the General Fund of approximately $664,000 in FY 2002-03, $547,000 in FY 2003-04, $623,000 in FY 2004-05, and $646,000 in FY 2005-06. The notes to the FY 2005-06 financial statements indicate that MLSD attributed the financial difficulties to the State funding system being ruled unconstitutional, the OSFC project, and declining enrollment. The financial statement notes also indicate that the District's plan for addressing the financial difficulties were to increase revenues through expanding open enrollment. The financial audits for FY 2006-07 and FY 2007-08 have not yet been released.

Despite the abovementioned financial statement disclosures, four members of the Board indicated they were surprised by the fiscal emergency declaration and were unaware of the severity of District's financial difficulties. The following factors contribute to the failure to recognize the declining financial condition:

- **Board Oversight**: As a collective group, the Board was not proactively involved in managing the District's finances prior to FY 2009-10. The only financial reports the prior Treasurer provided to the Board on a regular basis were the financial forecast with handwritten notes and analyses, and the monthly bank statements. The Board did not receive copies of the bank reconciliations; reports showing monthly revenues, expenditures and fund balances with encumbrances; budgetary/appropriation status reports; or supporting figures for the forecast assumptions (see **R2.2**). Furthermore, four Board members indicated that when they requested additional reports and/or had financial questions, the prior Treasurer was often unwilling to provide the additional information. As a result, the Board often made major financial decisions based on a limited understanding of the District's financial condition. ORC sections 3313.22 through 3313.24 indicate that each school district's board of education functions as the oversight authority and is responsible for appointing, evaluating, and setting the compensation for the treasurer. Additionally, ORC section 3313.29 indicates "that the school treasurer shall render a statement to the board and superintendent of the school district, monthly, or more often if required by the board, showing the revenues and receipts from whatever sources derived, the various appropriations made by the board, the expenditures and disbursements therefrom, the purposes thereof, the balances remaining in each appropriation, and the assets and liabilities of the school district."

- **Policies:** The Board lacks certain financial policies that could have assisted in recognizing future financial difficulties. For example, the Board lacks detailed policies concerning the financial forecast (see **R2.1**) and purchasing process (see **R2.7**). Similarly, the Board does not have a policy that addresses minimum fund balance requirements for the General Fund. *Appropriate Levels of Unreserved Fund Balances in the General Fund* (GFOA, 2002) recommends that governments establish a formal policy of unreserved fund balance that should be maintained in the General Fund and that it should be no less than 5 to 15 percent of regular General Fund operating revenues, or of no less than 1 to 2 months of regular operating expenditures. GFOA goes on to indicate that the minimum fund balance policy should be applied and monitored within the context of the long-term financial forecast.

- **External Committees**: The Board has not established any type of external committees to assist in providing financial oversight and guidance. *Recommended Budget Practices* (GFOA, 2006) indicates that every government should establish an audit committee and that "…ideally, the audit committee should possess a basic understanding of governmental financial reporting and auditing. The audit committee should also have access to the services of at least one financial expert, either a committee member or an outside party engaged for this purpose. This expert should possess an understanding of generally accepted accounting principles, experience in preparing or auditing financial statements, experience in applying such principles, in connection with the accounting for estimates, accruals, and reserves, experience with internal accounting controls, and an understanding of audit committee functions." GFOA goes on to indicate that the audit committee should provide an independent review and oversight of a government's financial reporting process, internal controls and independent auditors. In 2009, the Hilliard City School District (Franklin County) formed an Auditing and Accountability Committee comprised of citizens for reviewing the district's financial reporting and internal control structure, and to provide assurance to stakeholders that the district's financial management is effective and efficient.

- **Board Training:** As a collective group, the Board does not receive regular and consistent training on issues concerning school district finances. According to *Board Leadership Development* (Ohio School Boards Association, 2008), strong school district leadership starts with skilled and well-informed school board members and administrators. The Ohio School Boards Association (OSBA) advertises that it offers a variety of training courses and seminars for board members. Most workshops are three to five hours in length and are scheduled at convenient times in recognition of busy schedules. Additionally, OSBA has recently started an on-line training program as a strategy for minimizing scheduling conflicts. Finally, OSBA advertises workshops covering the following topics in 2010: New Board Member Academy; Board Presidents Workshop; Communication Workshop; School Finance Seminars; Management Development Seminars; Levy University; and a Board Leadership Institute.

R2.4 MLSD should develop and follow a budget calendar that specifies the tasks and timelines leading to adoption of the annual budget. The budget calendar should be designed to comply with statutory timeframes and include opportunities for the Board, employees, citizens and other stakeholders to provide input.

ORC § 5705.36 states that "on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify to the county auditor the total amount from all sources available for expenditures from each fund. The amount certified shall include any unencumbered balances that existed at the end of the preceding year." According to a representative from the Trumbull County Auditor's Office (the County Auditor's Office), this information is used to prepare an amended official certificate of estimated resources, which includes ending fund balances carried over from the prior year. In addition, ORC § 5705.38 states, in part, that " ... a board of education shall pass its annual appropriation measure by the first day of October. Prior to passage of the annual appropriation measure, the board may pass a temporary appropriation measure for meeting the ordinary expenses of the district until it passes the annual appropriation measure, and appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriations measure for that fiscal year when passed." In extreme cases, the County Auditor's Office can withhold the property tax revenues from entities that fail to comply with the abovementioned requirements.

The District did not comply with either statute in FY 2009-10. Specifically, as of November 2009 (five months after start of FY 2009-10), the District still had not filed a report showing the year-end fund balances (unencumbered balances) from FY 2008-09. As a result, the County Auditor's Office had not prepared an amended official certificate of estimated resources for FY 2009-10. In addition, reviews of the Board meeting minutes show that the Board did not adopt the annual appropriation measure for FY 2009-10 until October 26, 2009. Furthermore, the Treasurer indicated that the Board had not approved any temporary appropriation measures prior to this, indicating that the District operated from July through October (FY 2009-10) without a budget. Furthermore, the District does not have a formal budget calendar to guide employees through the process of developing the annual budget.

Recommended Budgeting Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1998) indicates that governments should develop a comprehensive budget calendar that specifies when budget tasks are to be completed and identifies timelines for those tasks. GFOA also indicates that the calendar is especially useful as a tool for keeping participants in the budgetary process on track for meeting statutory and other organizational deadlines.

R2.5 MLSD should take steps to address its financial problems by effectively budgeting resources and monitoring its financial performance. Specifically, the District should prepare a budget document that includes pertinent elements, such as charts and graphs to summarize key financial information, and a narrative to explain the District's goals and objectives for the upcoming year which should link to the long-term strategic plan (see R2.6). The District should also design the budget process to allow for stakeholder feedback.

In order to improve budgetary enforcement efforts and accountability, the District should adopt building and department specific budgets, and prepare monthly status reports for the Board and appropriate administrators. MLSD should hold administrators accountable for their budgetary performance. The Treasurer's Office should require that any expenditure exceeding the building/department budget be postponed until the Treasurer and Superintendent identify reductions in other areas of the budget to cover the shortfall and the Board approves the adjustment. The District should not allow transfers, advances, appropriation adjustments, and other budget modifications to take place without receiving Board approval beforehand. By operating within the framework and parameters established in the annual budget, and proactively monitoring finances during the year, the District can improve its ability to regain financial stability.

MLSD's budgetary practices do not meet certain practices advocated by the GFOA. An analysis of the District's budgetary practices compared to the GFOA's recommendations[8] includes the following:

- **Stakeholder Involvement:** MLSD has a budget planning policy which states "…budget planning is an integral part of program planning so that the annual operating budget may effectively express and implement all programs and activities of the District. Accordingly, budget planning is a year-round process involving broad participation by administrators, teachers and other personnel throughout the District." Contrary to this policy, MLSD's budget process is highly centralized with the Treasurer's Office. In practice, the Superintendent, Board, department heads, and other employees provide limited input into the budgetary process. Additionally, although the Board holds public meetings, MLSD does not hold public meetings or community forums solely dedicated to discussing the proposed budget and receiving input from interested citizens. GFOA indicates that by definition, stakeholders are affected by a government's resource allocation

[8] These suggested practices are drawn from *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998).

plans, and service and program decisions. As such, stakeholders should have clearly defined opportunities to provide input. This helps ensure that stakeholder priorities are identified and enhances stakeholder support for the approved budget. GFOA goes on to indicate that "a general-purpose public hearing shortly before final decisions are made on the budget is not adequate as the sole means of soliciting stakeholder input, especially on major issues."

- **Long-Term Focus:** According to the Treasurer, the annual budget is not linked to formal goals, objectives, and performance measures identified in a long-term comprehensive strategic plan (see **R2.6**). Rather, the budget is developed primarily on continuing past programs and service levels, meeting current obligations within the collective bargaining agreements, and making short-term adjustments to balance the estimated revenues and expenditures. GFOA advocates that a good budget process incorporates a long-term perspective, establishes links to broad organizational goals, focuses budget decisions on results and outcomes, and involves and promotes effective communication with stakeholders. These characteristics make it clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multiyear financial and operating plan that allocates resources based on identified goals.

- **Budget Document:** The District does not prepare, publish or circulate a formal budget document. The only document prepared is the appropriations resolution, which quantifies the estimated revenues and expenditures. However, it does not communicate the District's fiscal status, demographic information, and staffing levels, nor does it include charts and graphs, or written explanations for significant variances in proposed amounts. GFOA indicates that the budget should be presented in a clear, easy to use format, with the use of multiple documents, tailored to the needs of various stakeholders. These may include brief summaries of important information to be used by different audiences to enhance their understanding of important budget issues and tradeoffs. Some items in a budget document that will assist the reader include the following: a table of contents, a consistent format, high-level summary information that describes overall funding sources and the organization as a whole, a description of the overall planning and budgeting process and the interrelationships of those various processes, supplementary information about the government and the area for which it has responsibility, charts and graphs to better illustrate important points, succinct and clearly-written summaries, uncluttered pages, and detailed information placed in appropriate locations so that it does not overwhelm the reader. For the budget document to be readily understandable, it not only must contain the appropriate information, but must also be prepared in a manner that is clear and comprehensible.

- **Budget Monitoring**: The District's process for monitoring the budget is highly centralized with the Treasurer's Office. For example, the Treasurer's Office does not provide the Board or administrators with annual budget allocations or monthly budgetary status reports, and the District does not evaluate administrators on budgetary performance. In addition, **R2.7** indicates that MLSD does not consistently record encumbrances during the year and that administrators are permitted to make purchases without receiving advance approval from the Treasurer's Office. As a result of these practices, District officials often make financial decisions throughout the year based on a limited understanding of the District's finances. Furthermore, the Treasurer is often forced to make budgetary decisions on a reactionary basis rather than before a liability is incurred. GFOA indicates that a government should regularly evaluate its financial performance relative to the adopted budget. Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision makers time to consider actions that may be needed if major deviations in budget-to-actual results become evident. GFOA further states it is essential that budgetary reports are prepared on a routine, widely-publicized basis. In addition to monitoring budget-to-actual results, reasons for significant deviations should be evaluated and explained. These factors are important in assessing the significance of variations, including whether they are expected to be temporary or longer-term in duration.

R2.6 MLSD should develop a comprehensive strategic plan that outlines its long-term vision for operational and educational programs. The plan should include detailed goals, objectives, timeframes, performance measures, and applicable cost estimates. Once developed, MLSD should link the strategic plan to the budget and the five-year forecast (see R2.5 and R2.1). This approach shifts the focus of budgetary decisions from inputs (salaries and cost of purchased goods and services) to outputs and outcomes, and ultimately to the accomplishment of the goals and objectives in the strategic plan.

MLSD does not have a comprehensive District-wide strategic plan to guide long-term operations and spending decisions. *Recommended Practices on the Establishment of Strategic Plans* (GFOA, 2005) indicates that all governments should develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting. The strategic plan establishes logical links between spending amounts and goals. In addition, the focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In developing the strategic plan, GFOA recommends the inclusion of measurable objectives and performance measures. Objectives should be expressed as quantities or at least as verifiable statements, and ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and are an important link between the goals in the strategic plan and the activities funded in the budget.

The lack of a comprehensive strategic plan that includes detailed objectives and performance measures hinders MLSD from effectively developing budgets and five-year forecasts, and evaluating the relationship between its spending decisions and program outcomes. This, in turn, increases the risk of ineffectively addressing District needs.

Purchasing

R2.7 The District should revise its purchasing and vendor payment procedures. Specifically, MLSD should require that the Treasurer's Office approve the purchase orders, issue the approved purchase orders to the department heads to use in making the purchase with vendors, and record the encumbrances, in advance of making purchases. In addition, the District should develop procedures to ensure that vendor invoices are paid in a timely manner to avoid late fees, lost discounts, and service termination. These procedures could include requiring the Treasurer to track the average amount of time it takes to pay vendor invoices and the amount of late fees that are paid and/or prompt pay discounts that are lost on a monthly basis. The Treasurer and department heads should subsequently provide written explanations for the fees that are incurred and discounts that are lost. Taking such steps will help the administration determine the causes of delays and develop appropriate solutions.

Furthermore, the Board should communicate to District staff that payments resulting in late fees, lost discounts and service terminations (or notices of potential terminations) will no longer be tolerated. Similarly, the Board should ensure that the Treasurer submits the required employee withholdings. Lastly, MLSD should develop a comprehensive purchasing policy that addresses the use of price quotes, competitive bidding, cooperative purchasing, consortiums, and requests for proposals (RFPs). Accordingly, the District should use these practices along with an expansion of its membership in purchasing cooperatives/consortia to help reduce costs.

Deficiencies in purchasing and vendor payment processes impede the District's ability to effectively manage and improve its financial condition. A summary analysis of these deficiencies includes the following:

- **Encumbrances**: Prior to FY 2009-10, the District allowed principals and department heads to make purchases without the Treasurer's Office issuing a valid purchase order in advance. Under this system, most purchase orders and the associated encumbrance were created by the Treasurer's Office after the invoice had already arrived and was due for payment. According to the Treasurer, the lack of encumbrances often required the prior Treasurer to make numerous budget and accounting modifications to pay the unanticipated invoices. The Treasurer indicated that he is currently working to address this issue by informing principals and department heads of the appropriate procedures for making purchases, and rejecting any future purchases that do not have a valid purchase order.

- **Vendor Payments**: Due to the District's financial difficulties and the lack of planning associated with purchase orders/encumbrances, the Treasurer estimates that the majority of invoices took at least 45 days to be paid prior to FY 2009-10. However, the District took longer to pay certain invoices. For example, the Treasurer indicated that all utilities were between 3 and 6 months behind. Additionally, a review of utility bills shows that the District was behind in payments, regularly paid penalties and received shut-off notices. Likewise, the Internal Revenue Service (IRS) placed a lien against the District in 2008 for failure to remit the employee withholding taxes. The Treasurer indicates that the District is now current in paying most invoices due to the District receiving $2.0 million in State Emergency Loan proceeds. According to *Extension of Federal Prompt-Pay Requirements to State and Local Governments* (GFOA, 1989), the timely payment of bills is an important financial management tool that can save governments money. By carefully timing payments so there are neither late nor early payments, a government can take advantage of discounts, avoid penalties, and maximize returns on short-term investments. Furthermore, prompt bill payment reduces vendor costs which, in turn, can reduce state and local procurement costs.

- **Purchasing Policies**: The District's purchasing policies indicate that the "…function of purchasing is to serve the educational program by providing the necessary supplies, equipment, and services. The Board declares its intention to purchase competitively without prejudice and to seek maximum educational value for every dollar expended. The purchase of items and services approved through the appropriations resolution require no further Board approval, except in those instances in which, by law or Board policy, the purchases must be put to bid." However, the aforementioned policy and all other Board policies fail to specify the required price thresholds for obtaining price quotations, using requests for proposals (RFP's), and employing competitive bidding to obtain price comparisons and make objective vendor selections. In practice, the Treasurer indicated that the District rarely used competitive bidding and RFP's prior to FY 2009-10, and lacked consistency in requiring multiple price quotes. Furthermore, the District lacks membership in available purchasing consortiums that could be used as an additional mechanism for obtaining competitive pricing on goods and services (also see **R4.6** and **R4.7** in the **general operations** section).

In contrast to MLSD, the Akron City School District's purchasing policies require employees to obtain three price quotes on anything costing more than $6,000. In addition, the Cincinnati City School District's purchasing policies require competitive bidding for supplies and materials costing more than $500. *The Contract Management Manual* (Voinovich Center for Leadership and Public Affairs, 2001) indicates an RFP is a form of a bid, and is generally used for services that cannot be summarized in written bid specifications. It includes numerous recommendations as to what should be included in an RFP, and how to structure, evaluate, and award an RFP. Finally, U.S. Communities: Government Purchasing Alliance (USC) is a nonprofit entity that assists public agencies in reducing the cost of purchased goods by pooling the purchasing power of public agencies nationwide. USC advertises that the advantages of membership include: no user fees or costs to participate, competitively solicited contracts, nationally sponsored by leading associations and purchasing organizations, directed by public purchasing professionals, and aggregation of purchasing power by combining potential purchasing power of up to 90,000 local agencies and including over 35,900 participating public agencies. USC offers technology products such as computer hardware, software, and peripherals, as well as office and janitorial supplies, office furniture, office machines, and auto parts and accessories.

Financial Implication: Making more timely vendor payments could save the District a minimum of $25,000 annually in late fees and penalties, based on an estimate from the Treasurer for FY 2009-10. Additionally, the District spent approximately $351,000 on purchased services and supplies and materials in FY 2008-09. If the District could reduce the costs of these materials by 5 percent through the aforementioned strategies, the annual savings would be approximately $17,500.

Financial Communication

R2.8 MLSD should consider including financial information on its website and conducting periodic community forums, citizen surveys, and community focus groups. Taking these measures can help increase community interest and participation in the District's operations.

MLSD does not have formal mechanisms in place to communicate financial information to stakeholders. For example, although the Superintendent mails quarterly newsletters to the citizens to communicate operational issues at the District, the newsletters do not typically include charts, graphs or narratives regarding MLSD's financial condition. A MLSD Board member indicated that the District is working to improve its community outreach efforts, which includes presenting more concise and easily understandable information. The following is a summary of strategies used by other school districts and suggested practices to help improve stakeholder communications.

- **Website:** The District's website includes a wide variety of operational and educational information, but lacks a page for the Treasurer to include financial information. The Westerville City School District (Franklin County) has a detailed website that includes multiple years of comprehensive annual financial reports (CAFRs), popular annual financial reports (PAFRs), tax budgets, cost per pupil comparisons to other school districts in Franklin County, and reports that have been provided to a Financial Accountability Community Taskforce (FACT). The district formed FACT to oversee its progress in meeting plans and promises made during a 2006 levy campaign. The Westerville City School District website also includes links for forming collaborative school-business partnership programs, adopt-a-school programs, a variety of community-related information, the district's vision and mission statements, and links to annual operating and financial reports published by the district.

- **Community Forums:** MLSD does not hold regularly scheduled community forums to educate the citizens about its financial condition and general operations. During a performance audit of the Painesville Township Local School District[9] (Lake County) released in March 2007, the Treasurer noted that the District held town hall style meetings where discussions took place regarding issues like school funding and the impact on the district, the use of the permanent improvement levy, capital improvement projects, and curriculum issues. Likewise, the South-Western City School District (Franklin County) approved and published a *Contract with the Community* in 2009 that outlines specific goals and objectives associated with a new levy proposal, and an intention to establish a system of quarterly reports and meetings with the community to discuss its fiscal, operational, and educational improvement initiatives. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) states that governments, to improve public participation, should identify citizen preferences and satisfaction levels through common methods such as focus groups and public meetings.

- **Community Surveys:** MLSD does not conduct regular community surveys to gauge citizen satisfaction with its programs and services. The performance audit of the Painesville Township Local School District noted that the district administered surveys to solicit citizen feedback. One of the surveys solicited feedback on the level of satisfaction with the District's educational services, fiscal management, and communications; the adequacy of facilities and equipment; and

[9] Painesville Township Local School District has since changed its name to Riverside Local School District.

measures to alleviate building overcrowding. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) states that governments should use in-person, mail, phone, or internet surveys identify citizen preferences and satisfaction levels.

- **Community Focus Groups:** As noted in **R2.3**, MLSD does not use external committees or community focus groups to help oversee the financial management of the District. GFOA indicates that governments should consider creating public or neighborhood advisory groups, committees, and informal task forces to help improve public participation.

Pool Operations

R2.9 MLSD should establish a separate cost center or fund to account for all direct and indirect costs of operating the swimming pool. Doing so would capture the true cost of offering this service. Subsequently, the District should conduct a formal cost/benefit analysis for the swimming pool to identify long-term strategies of minimizing the burden on the General Fund. For example, the District's analysis could consider the potential for expanding program offerings to generate additional revenues, contracting for swimming pool management services, consolidating programs and services with neighboring governments and non-profit organizations, modifying the service levels of existing programs to improve efficiency, and implementing user charges.

MLSD operates and maintains an indoor swimming pool at the high school building. The swimming pool is used by the District to host synchronized swim events and to partner with the Village of McDonald in offering swimming lessons and other programs to citizens. However, the District does not currently charge outside groups to use the swimming pool and does not benefit from any ticket revenues associated with the synchronized swimming events. For accounting purposes, the District includes the swimming pool in the General Fund and does not use a cost center or fund classification to separate the expenditures. As a result, the District is unable to determine the full cost of operating the pool, which makes it difficult to conduct cost/benefit analyses for continuing to operate the swimming pool, to review other service delivery options, or to determine the District's ability to make the swimming pool operations self-sufficient through user charges.

According to *Measuring the Cost of Government Service* (GFOA, 2002), measuring the cost of government services is useful for a variety of purposes, including performance measurement and benchmarking, setting user fees and charges, and privatization. The full cost of services includes all direct and indirect costs related to that service including salaries, wages and benefits of employees working on the delivery of the service, as well as supplies, materials, and other operating costs such as utilities and administrative expenses. Additionally, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998) indicates that programs and services are the means by which a government addresses priorities established through its policies and plans. An evaluation of delivery alternatives for services and programs helps ensure that the best approach is selected for delivering a service. Finally, *Setting of Government Charges and Fees* (GFOA, 1996) indicates that states and local governments often use charges and fees to fund the provision of goods and services. According to economic theory, the most effective use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service.

Financial Outlook

R2.10 MLSD should analyze and use Table 2-4 to evaluate the effect of the recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit along with other appropriate actions to avoid projected operating deficits. For example, in addition to the recommendations in this performance audit that identify a potential for sharing services, the District should consider the feasibility of partnering with other districts to share applicable services. Furthermore, the Treasurer should update Table 2-4 on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, MLSD should regularly discuss options for reducing costs/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

Table 2-4 presents MLSD's financial condition after considering the impact of the performance audit recommendations and a correction to eliminate the overstatement in the State funding projections for FY 2010-11 (see **R2.2**). Based on **Table 2-4**, the District will have to make difficult management decisions in order to improve its financial condition. Specifically, even when the financial implications for all performance audit recommendations are included, **Table 2-4** shows that the District is projected to experience a negative fund balance each year from FY 2010-11 through FY 2013-14. When also considering the District's low expenditure (see **Tables 2-2** and **2-3**) and staffing levels (see **Table 3-1** in the **human resources** section), as well as its low local tax revenues and property valuation (see **Table 2-2**), this indicates that MLSD will likely need a combination of revenue increases and other expenditure reductions to effectively resolve the projected financial difficulties.

The forecast in **Table 2-4** will depend, in part, on the attainment of the District's projections. Therefore, monitoring the attainment of the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. The projections will also depend upon timing related to implementing the performance audit recommendations and the actual impact of those recommendations. **Table 2-4** assumes all performance audit recommendations will be implemented beginning in FY 2010-11.

Table 2-4: Five-Year Forecast (in 000s)

	Actual 2006-07	**Actual 2007-08**	**Actual 2008-09**	**Forecast 2009-10**	**Forecast 2010-11**	**Forecast 2011-12**	**Forecast 2012-13**	**Forecast 2013-14**
Real Estate Property Tax	$1,176	$908	$1,214	$1,076	$1,054	$1,033	$1,012	$992
Tangible Property Tax	164	112	48	7	0	0	0	0
Unrestricted Grants-in-Aid	3,777	3,839	3,838	3,460	3,725	3,650	3,576	3,501
Restricted Grants-in-Aid	12	4	2	29	29	29	29	29
Restricted Federal	0	0	0	236	236	0	0	0
Property Tax Allocation	164	190	213	320	320	320	320	291
Other Revenues	865	958	967	1,067	1,064	1,064	1,064	1,060
Total Operating Revenues	**$6,158**	**$6,011**	**$6,282**	**$6,195**	**$6,428**	**$6,096**	**$6,001**	**$5,873**
Salaries & Wages	$3,882	$4,012	$4,222	$4,123	$4,162	$4,211	$4,206	$4,297
Fringe Benefits	1,476	1,603	1,291	1,644	1,703	1,766	1,824	1,898
Purchased Services	659	917	711	928	810	794	778	762
Supplies, Materials & Textbooks	166	296	291	262	257	250	246	241
Capital Outlay	0	18	7	6	0	0	0	0
Debt Service	0	0	207	1,425	1,003	1,003	3	3
Other Expenditures	70	72	66	102	75	75	75	75
Total Operating Expenditures	**$6,253**	**$6,918**	**$6,795**	**$8,490**	**$8,010**	**$8,099**	**$7,132**	**$7,276**
Net Transfers/Advances	0	0	0	(33)	(35)	(35)	(35)	(35)
Note Proceeds	250	800	160	600	0	0	0	0
State Emergency Loan	0	0	0	2,001	0	0	0	0
Other Financing Sources	7	7	14	0	0	0	0	0
Net Financing	**$ 257**	**$ 807**	**$ 174**	**$2,568**	**($35)**	**($35)**	**($35)**	**($35)**
Result of Operations (Net)	**$162**	**($100)**	**($339)**	**$273**	**($1,617)**	**($2,038)**	**($1,166)**	**($1,438)**
Beginning Cash Balance	6	168	68	(271)	3	(1,614)	(3,652)	(4,818)
Ending Cash Balance	**$168**	**$68**	**($271)**	**$ 3**	**($1,614)**	**($3,652)**	**($4,818)**	**($6,256)**
Encumbrances	3	9	117	3	25	25	25	25
Ending Fund Balance	**$165**	**$59**	**($388)**	**$0**	**($1,639)**	**($3,677)**	**($4,843)**	**($6,281)**
New Levy (Cumulative)	0	0	0	130	390	650	910	1,170
Revised Ending Fund Balance	**$165**	**$59**	**($388)**	**$130**	**($1,249)**	**($3,027)**	**($3,933)**	**($5,111)**
State Funding Adjustment	0	0	0	0	(236)	(236)	(236)	(236)
Cumulative Impact of Performance Audit Recommendations	0	0	0	0	867	1,674	2,496	3,251
Revised Ending Fund Balance	**$165**	**$59**	**($388)**	**$130**	**($618)**	**($1,589)**	**($1,673)**	**($2,096)**

Source: MLSD October 2009 five-year forecast, with adjustments to reflect performance audit recommendations.
Note: Totals may vary due to rounding.

Table 2-5 summarizes the financial implications from the performance audit as they relate to the five-year forecast and associated funds.

Table 2-5: Summary of Performance Audit Financial Implications

Recommendation	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Total Estimated Cost Savings – Not Subject to Negotiation				
R2.7 Revise purchasing and vendor payment procedures.	$42,500	$43,800	$45,100	$46,400
R3.2 Reduce regular education staffing by 7.0 FTEs in FY 2010-11.	$282,000	$201,000 [1]	$201,000 [1]	$121,000 [1]
R3.5 Reduce total salary costs for non-bargaining office/clerical employees.	$13,000	$13,000	$13,000	$13,000
R3.8 Eliminate the early retirement incentive.	$44,000	$44,000	$44,000	$44,000
R3.9 Reduce special education costs.	$179,000	$184,400	$189,900	$195,600
R4.2 Reduce facility related overtime costs.	$7,000	$7,000	$7,000	$7,000
R4.3 Reduce utility costs.	$44,000	$45,000	$46,700	$48,100
R4.4 Eliminate one active bus.	$41,000	$41,000	$41,000	$41,000
R4.6 Investigate alternatives for purchasing fuel.	$2,000	$2,100	$2,100	$2,200
R4.7 Resolve deficits in Food Service Fund. [2]	$27,000	$27,800	$28,600	$29,500
Totals	**$681,500**	**$609,100**	**$618,400**	**$547,800**
Total Estimated Cost Savings - Subject to Negotiations				
R3.3 Eliminate health insurance bonuses, switch to the lower premium plan and require all employees to contribute 15 percent of premium costs.	$154,000	$160,000	$166,000	$170,000
R3.4 Reduce life insurance coverage levels.	$1,000	$1,000	$1,100	$1,100
R3.7 Reduce supplemental contract compensation.	$36,000	$36,000	$36,000	$36,000
Totals	**$191,000**	**$197,000**	**$203,100**	**$207,100**
Total Estimated Implementation Cost				
R4.7 Purchase point-of-sale system.	$5,950	$250	$250	$250
Totals	**$5,950**	**$250**	**$250**	**$250**
Total Revenue Enhancements				
R4.6 File for fuel tax refunds.	$700	$700	$700	$800
Totals	**$700**	**$700**	**$700**	**$800**
Net Performance Audit Financial Implications	**$867,250**	**$806,550**	**$821,950**	**$755,450**

Source: AOS performance audit recommendations
Note: Totals may vary due to rounding. Financial implications are increased each year based on the Treasurer's assumptions or inflation.
[1] Assumes the District re-hires 2 FTEs in FY 2011-12 and 2 additional FTEs in FY 2013-14.
[2] This is assumed to equate to a positive net gain in the Food Service Fund, which could impact revenues and costs.

HUMAN RESOURCES

Human Resources

Background

This section of the performance audit focuses on McDonald Local School District's (MLSD or the District) human resource operations. MLSD's human resource operations are evaluated against recommended or leading practices, industry benchmarks, operational standards, and selected peer school districts.[1] Sources of comparative information include the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the State Employment Relations Board (SERB), and the Kaiser Family Foundation 2009 National Survey (Kaiser Survey).

Organizational Structure

MLSD does not have a separate department dedicated to human resource functions. Instead, the District's Treasurer and Superintendent complete the major human resource functions, including hiring, terminating, managing and evaluating employees; negotiating collective bargaining agreements; administering the health insurance programs; processing payroll; monitoring compliance with minimum employment standards; and overseeing the process for reporting information through the Education Management Information System.

Staffing

Table 3-1 compares MLSD's full-time equivalent (FTE) employees per 1,000 students to the peer average for FY 2008-09[2].

[1] See the **executive summary** for a list of the peer districts and an explanation of the selection methodology. The "peer average" used in the audit comprises four school districts, unless noted otherwise.
[2] Based on testimonial evidence from the Superintendent and documentation from the Treasurer, the District's staffing levels did not materially change in FY 2009-10.

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

Staffing Category	McDonald LSD	Peer Average	Difference
Administrative [1]	5.6	6.6	(1.0)
Office/Clerical [2]	5.6	6.2	(0.6)
Classroom Teachers [3]	58.8	58.3	0.5
Education Service Personnel (ESP) [4]	6.2	9.6	(3.4)
Educational Support [5]	1.1	3.8	(2.7)
Non-Certificated Classroom Support [6]	2.2	3.3	(1.1)
Operations [7]	20.1	25.0	(4.9)
Total Staff	**99.6**	**112.9**	**(13.3)**

Source: FY 2008-09 EMIS data submitted to ODE.
Note: Students include those receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.
[1] Administrative personnel includes central office and building level administrators, directors and coordinators, as well as personnel responsible for planning, management, evaluation, and operation.
[2] Office/Clerical personnel includes all 500 position codes except 505 Teacher Aides, plus Administrative Assistants (101), Accounting (301) and Attendance Officers (901).
[3] Classroom Teachers include General Education, Special Education, Career-Technical Programs/Pathways, Gifted and Talented, Preschool Special Education, and Preschool Handicapped Itinerant teaching assignment.
[4] Education Service Personnel includes K-8 Art, Music, and P.E. Teachers, Counselors, Librarians, Registered Nurses, Social Workers, and Visiting Teachers per ORC 3317.023(A)(2).
[5] Educational Support includes Remedial Specialists, Tutors/Small Group Instructors, and Supplemental Service Teachers.
[6] Non-Certificated Classroom Support includes Teaching Aides, Paraprofessional Instructors, and Attendants.
[7] Operations includes Carpenters, Electricians, General Maintenance, Mechanics, Plumbers, Foremen, Other Crafts and Trades, Dispatchers, Vehicle Operators, Other Operative, Custodians, Food Service, Guards/Watchmen, Monitors, Groundskeepers, and Other Service Worker/Laborers.

Table 3-1 shows that MLSD's total staffing levels per 1,000 students (99.6) are 11.8 percent lower than the peer average (112.9), despite over-reporting FTEs in some cases (see **R3.1**). Additionally, the District exceeds the peer average only in classroom teachers (see **R3.2**).

Salaries

Table 3-2 compares the District's average salary and salary cost per student for FY 2008-09 to the peer average. A school district's average salary costs can be impacted by the beginning salary, years of service, negotiated wage and step increases, and educational level attained by personnel within a classification. The salary cost per student is impacted by the number of staff employed in a classification and their respective salaries. As a result, it is possible for MLSD to have higher average salaries than the peer average, but lower salary costs per student if the District is employing fewer personnel than the peer average.

Table 3-2: Average Salary Comparison

Staffing Category	Average Salaries MLSD	Average Salaries Peer Average	Average Salaries Variance	Salaries Per Student MLSD	Salaries Per Student Peer Average	Salaries Per Student Variance
Administrative	$57,644	$64,002	(9.9%)	$322	$425	(24.2%)
Office/Clerical	$29,452	$24,199	21.7%	$165	$151	9.3%
Classroom Teachers	$49,251	$45,822	7.5%	$2,893	$2,667	8.5%
Education Service Personnel (ESP)	$56,844	$45,170	25.8%	$350	$437	(19.9%)
Educational Support	$63,303	$36,526	73.3%	$71	$149	(52.3%)
Non-Certificated Classroom Support	$10,927	$13,125	(16.7%)	$24	$43	(44.2%)
Operations	$17,351	$15,287	13.5%	$349	$374	(6.7%)
Total Staff	**$41,928**	**$37,823**	**10.9%**	**$4,173**	**$4,263**	**(2.1%)**

Source: FY 2008-09 EMIS data as submitted to ODE.
Note 1: MLSD's administrative salaries have been adjusted to reflect the $2,000 deferred compensation match and the 10 percent pension benefit the Board provides to certain administrators.
Note 2: See **Table 3-1** for information on students and positions included in the staffing categories.

Table 3-2 shows that although MLSD's average salary ($41,928) is higher than the peer average ($37,823), the total salary costs per student ($4,173) are lower than the peer average ($4,263). The lower salary cost per student is due to the District employing fewer FTEs per 1,000 students (see **Table 3-1**). While over-reporting FTEs for some positions contributes to the higher average salary per FTE (see R3.1), the categories with higher average salaries and higher salaries per student are primarily explained by the following:

- **Certificated Staff**: The variances in average salaries for classroom teachers, education service personnel, and education support positions, and salaries per student for classroom teachers are primarily due to the tenure of MLSD's teaching staff. Specifically, according to a school district profile prepared by ODE, 73 percent of MLSD's teachers have at least 10 years of experience while the peer average is only 59 percent. This is further supported by a review of the District's certificated salary schedule, which shows that MLSD's annual salaries are only slightly higher than the peer average but consistent with the Trumbull County average. For example, the District's beginning salary for a teacher with a bachelor's degree is approximately $30,000 while the peer average is $29,000 and the Trumbull County average is $30,000. Likewise, MLSD's beginning salary for a teacher with a master's degree is approximately $33,000 while the peer average is $32,000 and the Trumbull County average is $33,000. Further, the District's salary for a teacher with a master's degree at 30 years of service is approximately $60,000 while the peer average is $58,000 and the Trumbull County average is $62,000. Finally, the District's average annual increase in salaries for a teacher with a master's degree at 30 years of service is 2.7 percent while the peer average is 2.6 percent and the Trumbull County average is 2.9 percent[3].

- **Classified Staff**: The higher average salaries for the operations and office/clerical positions, and the higher salaries per student in office/clerical are due to the District maintaining generous salary schedules compared to the peers (see **R3.5** and **R3.6**).

Negotiated Agreements

The District has collective bargaining agreements (CBA) with the McDonald Education Association (MEA) and the Ohio Association of Public School Employees (OAPSE). The CBA with MEA is effective from September 1, 2007 through August 31, 2010 and covers all certificated/licensed personnel employed by the Board as regular full-time employees, or certified employees hired on a limited teacher contract who are employed at least 17.5 hours per week. The CBA with OAPSE is also effective from September 1, 2007 through August 31, 2010 and covers all custodial personnel, food service personnel, school building secretaries, bus drivers, education aides, and paraprofessional aides. See **R3.3** to **R3.8** for an assessment of provisions in the CBAs.

Audit Objectives for the Human Resources Section

The following is a list of the questions used to evaluate the human resources function at MLSD:

- Is the District's current allocation of personnel efficient?
- How do the District's special education costs compare to the peers?
- How does the structure of the District's employee benefits compare with industry benchmarks?
- Are the District's salaries in line with the peer averages?
- Are the District's negotiated agreements in line with the peers and leading practices?
- Are the District's EMIS reports reliable?
- Does the District efficiently manage its workers' compensation program?
- How does the District's sick leave usage compare to State averages?

Assessments conducted on MLSD's certificated salaries (see **Table 3-2**), health and life insurance premium costs, sick leave usage and workers' compensation program were found to be comparable to the peers and/or other benchmarks.

[3] Based on the last step of consecutive annual increases in the master's schedule, MLSD's average annual increase is 4.8 percent, compared to 4.5 percent for the peer average and 5.3 percent for the Trumbull County average.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The performance audit identified the District's staffing levels as a noteworthy accomplishment. Specifically, despite overstating FTEs in some categories (see **R3.1**), MLSD employs fewer total FTEs per 1,000 students when compared to the peer average, with classroom teachers being the only classification to exceed the peer average (by only 0.5 FTEs per 1,000 students).

Recommendations

EMIS Reporting

R3.1 The District should calculate and report classified FTEs in the Education Management Information System (EMIS) according to the established definitions. To help prevent and detect errors, the District should consider developing policies and procedures for gathering, entering and verifying EMIS information. These policies and procedures should include a requirement that the Central Office Assistant and EMIS Coordinator crosscheck information against a sample of payroll records, student counts and other demographic information, and prior year EMIS reports. Variances should be investigated and resolved before submitting the information to ODE. The District should also consider allowing the Central Office Assistant and the EMIS Coordinator to become certified as Ohio Association of EMIS Professionals (OAEP). Collectively, these measures would better ensure the accuracy and reliability of EMIS data, which subsequently will help ensure the District is receiving appropriate funding and is making informed decisions.

The District does not have formal policies and procedures for preparing, reviewing and reconciling EMIS information before it is submitted to ODE. In practice, the Central Office Assistant (COA) is responsible for entering staff data into the EMIS system, and the EMIS Coordinator (EC) is responsible for entering student information. To ensure the accuracy of EMIS information, the COA indicated that the District regularly runs and corrects error reports within the EMIS system; follows the EMIS manual produced by ODE; works with the Information Technology Center (ITC) to maintain the data, assist with making corrections, and ensure that data is submitted on-time; and attends semi-annual EMIS update meetings held by the ITC. However, the COA and EC do not routinely crosscheck the EMIS entries and neither has achieved Certified EMIS Professional status through the OAEP.

During the course of this audit, AOS identified an inconsistency with the District's FY 2008-09 EMIS information. Specifically, the District reports all classified employees as 1.0 FTE, regardless of the hours worked. For example, MLSD reported employing 5.0 monitor FTEs, 2.0 working 6.5 hours per day and 3.0 working 5.0 hours per day. Likewise, MLSD reported employing 3.0 bus driver FTEs, 2.0 working 5.0 hours per day and 1.0 working 3.5 hours per day; and 2.0 food service FTEs, 1.0 working 7.0 hours per day and 1.0 working 6.0 hours per day. This reporting method contradicts the process outlined in the EMIS Manual for FY 2008-09, which states the following: "Full-time equivalency (FTE) is the ratio between the amount of time normally required to perform a part-time assignment and the time normally required to perform the same assignment full-time. The number 1.00 represents one full-time assignment. One (1.0) FTE is equal to the number of hours in a regular working day for that position, as defined by the district." Consequently, MLSD is inflating its FTE counts when it reports full FTEs for positions that work varying hours in the same classification.

The EMIS Manuals (FY 2008-09 and FY 2009-10) also indicate that information collected through the EMIS system is used for state and federal reporting, funding and distribution of payments, an academic accountability system, and the generation of statewide and district reports. According to the Manuals, MLSD is solely responsible for the accuracy of EMIS data, including correcting errors in a timely manner. To help districts submit accurate EMIS data, ODE, OAEP, and the Ohio Education Data Systems Association provide various training opportunities and conferences each year. Further, OAEP offers Certified EMIS Professional and Master Certified EMIS Professional designations, which are earned after completing a regimented program of professional development and work experience. According to ODE, Certified EMIS Professionals and Master Certified EMIS Professionals are committed to maintaining the highest standards possible regarding the maintenance and reporting of student, staff, and district data.

Staffing

R3.2 The District should consider reducing its regular education staffing levels for FY 2010-11 by 7.0 FTEs. This will generate savings for the District and still comply with OAC § 3301-35-05 and the funding formula standards in House Bill 1 (HB1). Subsequently, the District should actively monitor its enrollment, teacher staffing levels and financial condition in relation to these standards. Furthermore, the District should consult with ODE to determine whether the provisions in HB1 will correspond to new staffing requirements and ensure proposed reductions will permit compliance with the new requirements. Lastly, MLSD should weigh decisions to reduce teacher staffing levels against compliance with the various standards and the impact the reductions may have on the quality of education.

As shown in **Table 3-1**, the District employs 0.5 more classroom teacher FTEs per 1,000 students than the peer average. This is mainly due to regular education teachers, which comprise 89 percent of the classroom teachers. The District employs 0.75 more regular teacher FTEs per 1,000 students than the peer average. However, when including only regular education students, MLSD employs slightly fewer regular education teachers than the peer average. Specifically, the District's regular student-to-teacher ratio (17.6:1) is slightly higher than the peer average (17.1:1). Additionally, OAC § 3301-35-05 indicates that school districts are required to maintain at least one FTE classroom teacher for every 25 regular education students on a District-wide basis. Based on MLSD's FY 2008-09 staffing and enrollment levels, the District could reduce up to 13 teacher FTEs and still comply with this requirement.[4]

House Bill 1 (HB1) was passed at the start of FY 2009-10, which provides a new State funding formula for school districts and accounts for new teacher staffing standards. For instance, to determine funding levels for "core" teacher positions, the legislation uses a ratio of 25 students per teacher in 4th through 12th grades, and 19 students per teacher in kindergarten through 3rd grades for FY 2009-10 and FY 2010-11. The student-to-teacher ratio for kindergarten through 3rd grades declines to 17:1 for FYs 2011-12 and 2012-13, and further declines to 15:1 thereafter. However, as of February 2010, the HB1 standards only impact the State funding formula and have not yet been adopted as the required operating standard. Assuming that the operating standards will mirror the HB1 funding formula, **Table 3-3** compares MLSD's regular education staffing levels to the HB1 standards based on FY 2008-09 data.

Table 3-3: HB1 Teacher Staffing Levels

	FYs 2009-10 & 2010-11	FYs 2011-12 & 2012-13	FY 2013-14 & Beyond
FY 2008-09 Staffing Level	47.0	47.0	47.0
Required Staffing Level	39.9	41.6	43.7
Variance	**7.1**	**5.4**	**3.3**

Source: MLSD EMIS All Staff Report 2008-09.

Table 3-3 shows that MLSD could reduce approximately 7 teacher FTEs in FY 2010-11 and still comply with HB1 standards. However, if the District implemented this reduction and student enrollment remained constant, it would have to re-hire approximately 2 FTEs in FY 2011-12 and another 2 FTEs in FY 2013-14 to meet the standards. This would result in a net reduction of 3 FTEs during the four-year timeframe. Given the extent of MLSD's financial difficulties (see **financial systems** section), the District may have to consider making annual adjustments to its teacher staffing levels.

Financial Implication: By eliminating 7 teacher FTEs, MLSD could save approximately $282,000 in salaries and benefits in FY 2010-11, based on the beginning salary for teachers with a bachelor's degree. This savings would be reduced to approximately $201,000 if the District re-hires 2 FTEs in FY 2011-12 and FY 2012-13. This savings would be further reduced to $121,000 if the District re-hires 2 additional FTEs in FY 2013-14.

[4]The analyses in **R3.2** are based on the District's staffing levels and student enrollment in FY 2008-09. However, the District's regular education staffing levels have not changed since FY 2008-09, and the student enrollment has remained relatively consistent since FY 2002-03.

Benefits

R3.3 MLSD should negotiate to eliminate the health insurance related bonuses and require all employees to contribute at least 15 percent of the monthly premium costs. The District should also negotiate to switch all employees to the lower premium plan currently required for employees hired after July 1, 2008. Furthermore, MLSD should consider negotiating to increase the number of hours worked to qualify for health insurance.

MLSD offers health insurance to all certificated staff that work more than four hours per day and classified staff that work more than five hours per day, which amounts to only 20 and 25 hours per week, respectively. Employees working less than these thresholds can receive health insurance coverage provided they pay 50 percent of the premium costs. For healthcare purposes, MLSD participates in the Trumbull County Schools Employees Insurance Consortium (the Consortium). In FY 2009-10, the District's monthly health insurance premiums are $427 for single coverage and $1,112 for family coverage. These premium rates are lower than the statewide averages reported by SERB for FY 2008-09 of $438 for single coverage and $1,149 for family coverage. In addition, the District offers an alternative insurance plan that is required for employees hired after July 1, 2008. This plan has monthly premiums of $384 for single coverage and $998 for family coverage, which are lower than the District's other plan. However, only 9 employees were enrolled in this plan as of October, 2009.

Table 3-4 compares MLSD's employee contributions to healthcare to data reported by the Kaiser Survey and SERB.

Table 3-4: Monthly Healthcare Employee Contribution Rates

	MLSD 2009-10	**Kaiser 2009**	**SERB 2008-09**
Staff Hired: Before July 1, 2008 After July 1, 2008	Single: 5% Family: 5% Single: 10.0% Family: 10.0%	Single: 17% Family: 26%	Statewide: Single: 11.2% Family: 12.0% School Districts & ESCs: Single: 10.9% Family: 11.9%

Source: McDonald LSD, Kaiser Survey 2009, SERB 2009 Annual Report

Table 3-4 shows that MLSD uses a phased-in approach to determine the required healthcare contributions, with employees hired before July 1, 2008 contributing 5.0 percent of the monthly premium and employees hired after July 1, 2008 contributing 10.0 percent. However, **Table 3-4** shows that both contribution rates are lower than the SERB and Kaiser Survey averages. Furthermore, because of MLSD's phase-in schedule, only 9 employees are making the 10.0 percent contribution in FY 2009-10 while the remaining 54 employees make the 5.0 percent contribution. The District's total savings from requiring employee contributions is estimated at approximately $39,000 in FY 2009-10.

In addition to the lower employee contributions, the District's CBAs include provisions which grant health insurance related bonuses to employees. Specifically, the CBAs indicate the following:

- **Classified Staff**: All collective bargaining unit members who are enrolled in and contribute to their health insurance premium will receive a bonus of $21 per pay (24 pays) for family plan enrollment and $11 per pay (24 pays) for single plan enrollment. In July 2009, these amounts change to $25 per pay (24 pays) for a family plan and $13 per pay (24 pays) for a single plan. These rates will continue as long as the collective bargaining unit member is an active participant in MLSD's health insurance program.

- **Certificated Staff**: In April 2008, MLSD will pay a yearly bonus to bargaining unit members in the amount of $500 for family plan enrollment and $250 for single plan enrollment. The yearly bonus paid to bargaining unit members in April 2009 will be $600 for family plan enrollment and $300 for single plan enrollment. The bonus will be issued in April of each year.

Through the abovementioned provisions, the District will incur a total cost of approximately $33,000 in health insurance related bonuses in FY 2009-10, which reduces the savings from the employee contributions to approximately $6,000. The Superintendent indicated that the bonus provisions were included in the CBAs in order to ease the burden on employees that were now required to make health insurance contributions. Prior to FY 2007-08, MLSD employees were not required to contribute to the cost of health insurance. In addition, requiring only employees hired after July 1, 2008 to participate in the alternative insurance plan prevents the District from reducing costs and instilling equity in its provision of benefits. Lastly, although altering the hour thresholds would not result in significant savings for current staff[5], it would avoid the potential of providing full benefits to staff working a part-time schedule in the future.

Financial Implication: The District would experience an annual cost savings of approximately $64,000 by requiring all employees to switch to the alternative insurance plan and $57,000 by requiring all employees to contribute at least 15 percent of the cost of the alternative insurance plan, for a total annual savings of approximately $121,000. Eliminating the health insurance bonus would save an additional $33,000 annually.

[5] For example, if the District revised the threshold to six hours for all staff, it would impact only two employees.

R3.4 The District should consider negotiating to reduce the life insurance coverage levels to a maximum of $40,000 for certificated and classified staff. Doing so would make the District's rates comparable to the peer average, but still higher than the OEA median.

Table 3-5 compares the District's life insurance benefits to the peers.

Table 3-5: Life Insurance Comparison

	Certificated	Classified
McDonald LSD	$50,000	$50,000
Bristol LSD	$50,000	$50,000
Columbiana EVSD	$30,000	$30,000
Lowellville LSD	$40,000	$40,000
Southington LSD	$50,000	$30,000
Peer Average	**$42,500**	**$37,500**

Source: MLSD, Bristol LSD, Columbiana Ex Village, Lowellville LSD, and Southington LSD negotiated agreements.

Table 3-5 shows that MLSD provides certificated and classified employees with $50,000 in life insurance benefits, which is higher than two peers for certificated employees and three peers for classified employees. In addition, the Ohio Education Association (OEA) reports that the median life insurance benefit in 2008 was $35,000 for all employees.

Although the District provides more life insurance benefits to its employees, its cost for the coverage is low. Specifically, the District's FY 2009-10 life insurance cost per $1,000 of coverage is $0.10. By comparison, OEA indicates that the median cost for the life insurance benefit in 2008 was $0.14 per $1,000 in coverage.

Financial Implication: If the District reduced the life insurance coverage levels to $40,000, the estimated savings would be approximately $1,000 annually. The cost savings assumes the District will continue to pay $0.10 per $1,000 in coverage.

Salaries

R3.5 The District should review the non-bargaining office/clerical salary schedule and job responsibilities in relation to area and peer school districts, and appropriate benchmarks. This would ensure that the District makes well informed decisions about the office/clerical compensation and staffing levels. Such decisions could include revising the salary schedule and implementing wage freezes for non-bargaining staff, and reducing office/clerical staffing levels. Taking such actions would help bring the salary costs per student for office/clerical staff closer to the peer average.

Table 3-2 shows that MLSD's average salary for office/clerical staff ($29,452) is higher than the peer average ($24,199). The District employs 5.0 office/clerical FTEs, 3.0 of which work in the District's administrative office and are considered non-bargaining for compensation purposes. The remaining 2.0 FTEs work at the elementary and high school buildings and are represented through the classified CBA. The higher average salary shown in **Table 3-2** is due to significant differences in the salary schedules for these employees. For example, the District's salary schedule for the 3.0 non-bargaining FTEs consists of 15 consecutive steps that range in hourly rates from $11.08 to $19.64, with an average annual step increase of 3.9 percent. By comparison, the salary schedule for the high school secretary (classified staff member) consists of 10 steps spread over 25 years that range in hourly rates from $12.74 to $15.21, with an average annual step increase of 1.8 percent. Likewise, the salary schedule for the elementary school secretary (classified staff member) consists of 10 steps spread over 25 years that range in hourly rates from $12.63 to $14.80, with an average annual step increase of 1.6 percent. If the annual salaries for the 3.0 non-bargaining office/clerical FTEs were excluded, the District's revised office/clerical average salary would be $23,201, which is lower than the peer average ($24,199).

The Superintendent indicated that the District maintains a separate salary schedule for non-bargaining office/clerical FTEs because they are responsible for completing a variety of duties that extend beyond traditional clerical functions including EMIS reporting and accounts payable. Nevertheless, in addition to the higher average salaries, **Table 3-2** shows that the District's office/clerical salary costs per student ($165) are higher than the peer average ($151). The abovementioned factors taken together indicate that MLSD's office/clerical salary levels for non-bargaining staff are generous. However, if the District feels that the generous salaries are warranted, reducing office/clerical staffing levels would reduce its salary costs per student. It should be noted that **Table 3-1** shows that MLSD currently employs fewer office/clerical FTEs per 1,000 students than the peer average. Likewise, the District employs fewer administrative FTEs per 1,000 students, at an average salary cost this is 9.9 percent lower than the peer average and a salary cost per student that is 24.2 percent lower than the peer average. The lower administrative staffing and salary levels may contribute to the variances in clerical salaries, depending upon the types of duties performed by administrative and clerical positions at the peer districts.

Financial Implication: Reducing the office/clerical salary cost per student to the peer average ($151) would save the District approximately $13,000 annually.

R3.6 Given the current financial difficulties, the District should consider strategies to reduce the level of compensation for operations staff, such as negotiating to revise the salary schedules and/or freeze wages for an extended period of time. Taking such measures will help bring MLSD's salaries for operations employees more in line with the peer averages.

Table 3-2 shows that MLSD's average salary in the operations classification ($17,351) is higher than the peer average ($15,287). To determine the cause of the higher salaries, the step schedules for the custodial, food service and transportation employees were compared to salary schedules in place at Bristol Local School District (Bristol LSD), Columbiana Exempted Village School District (Columbiana EVSD), Lowellville Local School District (Lowellville LSD) and Southington Local School District (Southington LSD). **Table 3-6** summarizes the salary schedule comparisons for FY 2008-09.

Table 3-6: Operations Salary Summary Comparison

	McDonald LSD	Bristol LSD	Columbiana EVSD	Lowellville LSD	Southington LSD[1]	Peer Average[1]
			Custodian			
Beginning Step	$14.99	$12.69	$8.85	$12.98	$12.18	**$11.51**
Last Step	$17.44	$13.82	$9.05	$19.19	$13.82	**$14.02**
Avg. Step Increase	$0.25	$0.57	$0.10	$0.62	$0.16	**$0.54**
Total Steps [2]	10	2	2	10	10	**5**
			Head Cook			
Beginning Step	$11.96	$9.76	N/A	$12.03	$10.95 [3]	**$10.90**
Last Step	$14.09	$11.19	N/A	$15.52	$12.59 [3]	**$13.36**
Avg. Step Increase	$0.21	$0.72	N/A	$0.58	$0.16	**$0.62**
Total Steps [2]	10	2	N/A	6	10	**4**
			Cook			
Beginning Step	$11.14	$9.69	$8.35	$9.31	$10.87	**$9.12**
Last Step	$13.28	$11.19	$8.55	$10.44	$12.52	**$10.06**
Avg. Step Increase	$0.21	$0.75	$0.10	$0.38	$0.17	**$0.40**
Total Steps [2]	10	2	2	3	10	**2**
			Bus Driver			
Beginning Step	$14.25	$13.95	$11.60	$13.82	$12.45	**$13.12**
Last Step	$16.36	$15.01	$11.80	$20.31	$13.93	**$15.71**
Avg. Step Increase	$0.21	$0.53	$0.10	$0.81	$0.15	**$0.65**
Total Steps [2]	10	2	2	8	10	**4**

Source: FY 2008-09 McDonald LSD and peer districts' classified bargaining agreement salary step schedules.
[1] Because Southington LSD's collective bargaining agreement expired June 30, 2008 and reflects salary schedules for FY 2007-08, the peer average excludes Southington LSD.
[2] MLSD's step increases cover 25 years rather than 2 to 10 consecutive years like the peers.
[3] Southington LSD's classified CBA has rates for an Assistant Head Cook, rather than a Head Cook position.

Table 3-6 shows that MLSD's beginning and ending salaries are higher than the peer averages for each position. Although the District's average value of step increases is lower than the peer averages, the higher salaries result in MLSD paying more to their employees during their careers than the peers. For example, the total salary MLSD could pay to a custodial employee who receives all the step schedule increases during a 30 year career is approximately $1,084,000 while the peer average is only $877,000.

It should be noted that **Table 3-2** shows that the District's total salary costs per student for operations employees ($349) is lower than the peer average ($374), which indicates that the District offsets the generous salary schedules by maintaining lower staffing levels. **Table 3-1** supports this by showing that the District employs fewer operations staff per 1,000 students (20.1) than the peer average (25.0). However, given the extent of MLSD's financial difficulties, it may need to consider altering salary schedules and freezing wages for the operations staff to be more comparable to the peers.

Financial Implication: Revising the salary schedules and eliminating wage increases would reduce costs. However, a financial implication is not quantified because **Table 2-1** in **financial system** section shows the Treasurer has forecasted no wage increases for the next four years of the forecast.

R3.7 The District should review its supplemental salary schedule and consider reducing the compensation rates to be more comparable to the peers. MLSD should also review the number of supplemental contracts for athletic programs to determine if reductions can be made.

In total, MLSD has 51 supplemental contracts, 14 for academic purposes and 37 for various athletic programs. By comparison, the peer average is 59 total supplemental contracts, 27 for academic purposes and 32 for various athletic programs. Although MLSD has fewer total supplemental contracts, it has generous compensation rates. **Table 3-7** shows salaries for a sample of 11 supplemental contracts in place at MLSD and the peers. These positions were selected because they are relatively consistent in function.

Table 3-7: MLSD and Peer Supplemental Salaries

	McDonald LSD	Bristol LSD	Columbiana EVSD	Lowellville LSD	Southington LSD [1]	Peer Average	Percent Difference
Supplemental Base	$29,973	$28,241	$26,001 [2]	$31,120	$28,462	$28,456	5.3%
			Band Director				
Percentage	15.0%	4.0%	15.0%	N/A	10.0%	9.7%	5.3%
Supplemental	$4,496	$1,130	$3,900	N/A	$2,846	$2,625	71.3%
			Jr. Class Advisor				
Percentage	6.0%	14.0%	5.0%	6.0%	7.0%	8.0%	-2.0%
Supplemental	$1,798	$3,954	$1,300	$1,867	$1,992	$2,278	-21.1%
			Yearbook Advisor				
Percentage	13.0%	7.0%	7.0%	N/A	7.0%	7.0%	6.0%
Supplemental	$3,896	$1,977	$1,820	N/A	$1,992	$1,930	101.9%

	McDonald LSD	Bristol LSD	Columbiana EVSD	Lowellville LSD	Southington LSD [1]	Peer Average	Percent Difference
Basketball (Male)							
Percentage	23.0%	23.0%	21.0%	21.0%	15.0%	20.0%	3.0%
Supplemental	$6,894	$6,495	$5,460	$6,535	$4,269	$5,690	21.2%
Basketball (Female)							
Percentage	23.0%	23.0%	21.0%	21.0%	15.0%	20.0%	3.0%
Supplemental	$6,894	$6,495	$5,460	$6,535	$4,269	$5,690	21.2%
Football							
Percentage	23.0%	N/A	21.0%	21.0%	15.0%	19.0%	4.0%
Supplemental	$6,894	N/A	$5,460	$6,535	$4,269	$5,422	27.2%
Softball							
Percentage	11.0%	10.0%	11.5%	12.0%	9.0%	10.6%	0.4%
Supplemental	$3,297	$2,824	$2,990	$3,734	$2,562	$3,028	8.9%
Baseball							
Percentage	11.0%	10.0%	11.5%	12.0%	9.0%	10.6%	0.4%
Supplemental	$3,297	$2,824	$2,990	$3,734	$ 2,562	$3,028	8.9%
Cross Country							
Percentage	11.0%	8.0%	21.0%	8.0%	8.0%	11.3%	-0.3%
Supplemental	$3,297	$2,259	$5,460	$2,490	$2,277	$3,122	5.6%
Track (Boys)							
Percentage	11.0%	10.0%	11.5%	12.0%	8.0%	10.4%	0.6%
Supplemental	$3,297	$2,824	$2,990	$3,734	$2,277	$2,956	11.5%
Track (Girls)							
Percentage	11.0%	10.0%	11.5%	12.0%	8.0%	10.4%	0.6%
Supplemental	$3,297	$2,824	$2,990	$3,734	$2,277	$2,956	11.5%
Total Cost	**$47,358**	**$33,607**	**$40,822**	**$38,900**	**$31,593**	**$36,230**	**30.7%**
Cost per Contract	**$4,305**	**$3,361**	**$3,711**	**4,322**	**$2,872**	**$3,567**	**20.7%**

Source: Certificated CBAs in place at MLSD and the peers.
[1] Southington LSD has three schedules for supplemental pay based on years of service. **Table 3-7** presents the highest supplemental pay schedule.
[2] Columbiana EVSD is the only district with a base for supplemental that is not the base salary for teachers with a bachelors degree.

Table 3-7 shows that MLSD's supplemental pay exceeds the peer average for 10 of the 11 positions, due to the higher base salary and higher percentages. The District's percentages exceed the peer average in 9 of the 11 positions. **Table 3-7** also shows that MLSD's total cost for all 11 positions ($47,358) and the average cost per contract ($4,305) are higher than the respective peer averages ($36,230 and $3,567).

Financial Implication: If MLSD could achieve an average supplemental contract cost of approximately $3,600 by reducing the compensation rates to be more comparable to the peer averages, the annual savings would be $36,000.

Other Negotiated Provisions

R3.8 The District should conduct a comprehensive cost-benefit analysis prior to offering future early retirement incentives (ERI), including an evaluation of the ERI scheduled for FY 2010-11. In developing the cost-benefit analysis, the District should review the GFOA guidelines for evaluating ERIs to ensure all relevant factors have been considered. Additionally, the District should consider negotiating to reduce the number of holidays, vacation time, and sick days paid at retirement.

As a component of the performance audit, certain provisions within the District's MEA and OAPSE bargaining agreements were compared to Ohio Revised Code requirements, relevant standards, and/or peers. A summary of the areas that exceeded these standards includes the following:

- **Holidays:** MLSD's classified employees who work less than 11 months receive 12 holidays while employees who work 12 months receive 13 holidays. By comparison, Bristol LSD provides employees the potential to have 11 paid holidays (employee receives holiday if scheduled to work); Columbiana EVSD provides employees the potential for 9 paid holidays (employee receives holiday if scheduled to work); Lowellville LSD provides custodians with 9 holidays and other classified positions with 6 holidays; and Southington LSD provides its 11 and 12 month employees with 11 holidays and the 9 and 10 month employees with 8 holidays. According to ORC § 3319.087, 11 and 12 month employees are entitled to a minimum of 7 holidays, and 9 and 10 month employees are entitled to 6 holidays. Providing full-time employees with more holidays can reduce productivity since there are fewer workdays devoted to District operations.

- **Vacation Leave:** The District's vacation accrual rates are generous compared to two peers and the ORC minimum requirements. For example, MLSD's classified employees receive 10 vacation days after 1 year of service, 15 days after 5 years of service, 20 days after 13 years of service, and 25 days after 20 years of service. By comparison, both Columbiana EVSD and Southington LSD cap their vacation accrual rates at 20 days after 16 and 15 years of service, respectively.[6] Furthermore, ORC § 3318.084 stipulates that non-teaching employees receive 10 days of vacation for 1 to 9 years of service, 15 days after 10 years of service, and

[6] Bristol LSD and Lowellville LSD have vacation accrual schedules that are similar to MLSD.

20 days after 20 years of service. Providing employees with more days off can increase expenditures if substitutes and/or overtime are needed.

- **Sick Leave Accrual and Severance Payout:** The District's certificated CBA indicates that employees can accumulate 310 sick days. After that limit has been reached, subsequent sick days will accumulate at 0.25 days per month. The certificated CBA goes on to indicate that when an employee retires he/she shall be paid severance pay for the sick leave days they have accumulated up to a maximum of 80 days. Likewise, the District's classified CBA indicates that the maximum sick leave accumulation is 310 sick days, and establishes the severance payout at 25 percent of the unused sick leave, for a maximum payout of 77.5 days. By comparison, ORC §124.39 stipulates that if an individual retires with 10 or more years of service with the State, they are entitled to be paid 25 percent of the value of their accrued but unused sick leave, up to a maximum of 30 days. MLSD's severance payouts are also higher than Lowellville LSD, which provides for a maximum payout to certificated and classified staff of 55 days. Bristol LSD, Columbiana EVSD, and Southington LSD all maintain severance payout schedules that are comparable to MLSD.

- **Early Retirement Incentive:** At the conclusion of FY 2006-07, the District adopted an Early Retirement Incentive (ERI) to encourage eligible certificated staff to retire. Through the program, employees retiring by the end of FY 2007-08 were given an initial payment of $2,300 and subsequent monthly payments of $300 for 59 months (5 years), for a total payout of $20,000 per employee. Employees retiring between FY 2008-09 and FY 2010-11 are eligible to receive an initial payment of $1,500 and subsequent monthly payments of $225 for 59 months (5 years), for a total payout of $14,775 per employee. The ERI is provided in addition to the normal severance payout (potentially 77.5 to 80 days). As a result, the District could potentially pay a teacher with 30 years of experience approximately $38,000 to retire by FY 2009-10. To date, there have been 10 employees that have participated in this program; 6 in FY 2007-08, 3 in FY 2008-09, and 1 to date in FY 2009-10. This program was originally established through Board resolution and is not subject to the collective bargaining process. However, the Treasurer indicated that the District does not have a formal cost-benefit analysis to demonstrate that the program generates substantial savings. Furthermore, the Treasurer indicated that the District may discontinue the program at the end of FY 2009-10 (one year early) based on its financial condition.

  According to *Evaluating Use of Early Retirement Incentives* (GFOA, 2004), governments occasionally offer ERIs to employees as a strategy to reduce payroll costs or stimulate short-term turnover among staff. ERIs are temporary, offered during a window that usually covers a period of months. They increase the economic value of the standard retirement benefit. Historically, ERIs rarely have succeeded, since costs are often greater than initially anticipated by the government offering the incentive, and savings are lower than projected. As such, governments should take specific actions prior to offering an ERI including establishing and publishing explicit goals for the ERI, developing a comprehensive cost-benefit analysis that accounts for direct and indirect impacts, and developing accurate and comprehensive budgetary estimates for the cost of the ERI. Finally, GFOA indicates that if ERIs are offered, they should be offered very infrequently and without a predictable schedule to avoid the expectation that future ERIs will be offered. Such an expectation distorts normal employee retirement patterns.

Financial Implication: If the District eliminated the ERI program in FY 2010-11, the potential savings would be approximately $44,000 spread over a five-year period, or $14,775 per employee. This is based on an average of approximately 3 employees retiring per year since FY 2007-08.

Special Education

R3.9 The District should conduct a comprehensive review of it special education program to identify strategies for improving overall cost effectiveness. These strategies could include partnering with other districts to share certain services, and annually reviewing and modifying its contracted services to improve overall cost effectiveness. In particular, the District should compare the cost of services from the Trumbull County Educational Service Center (TCESC) to other neighboring educational service centers, private service providers, and the cost of bringing the functions in-house. When conducting the review of the special education program, MLSD should consult with ODE to ensure proposed changes will permit compliance with minimum mandated spending and operating requirements.

Table 2-3 in the **financial systems** section shows that the District's FY 2008-09 special education expenditure per student (based on all students) was $821 while the peer average was $793. The higher expenditures are attributed, in part, to the District's use of purchased services to provide certain special education services. **Table 3-8** compares MLSD's special education student-to-teacher ratios and purchased services to the peers for FY 2008-09.

Table 3-8: Special Education Staffing and Purchased Service Comparison

	McDonald LSD	Bristol LSD	Columbiana EVSD	Lowellville LSD	Southington LSD	Peer Average
Special Education Students	82	108	157	65	75	101
Purchased Service Costs	$367,901	$121,063	$548,056	$9,635	$173,439	$213,048
Special Education Teachers (FTEs)	4.5	4.5	9.2	3.7	3.9	5.3
Purchased Service Costs per Special Education Student	$4,487	$1,121	$3,491	$148	$2,313	$1,768
Student-to-Teacher Ratios	18.2:1	24.0:1	17.1:1	17.6:1	19.2:1	19.5:1

Source: EMIS and 4502 expenditure information reported by MLSD and the peers.

Table 3-8 shows that although MLSD's special education student-to-teacher ratio (18.2:1) is lower than two peers, its purchased service costs per special needs student ($4,487) is higher than each peer and 2.5 times higher than the peer average ($1,768). Furthermore, based on data reported by ODE, MLSD spent 57.5 percent more than the minimum mandated requirements on special education in FY 2007-08[7]. Although this is less than Southington LSD (133.3 percent), it is higher than Bristol LSD (40.8 percent), Columbiana EVSD (24.3 percent), and Lowellville LSD (25.3 percent).

In FY 2008-09, the District spent a total of approximately $368,000 on contracted services for the special education program, with the Trumbull County Educational Service Center (TCESC) representing approximately $250,000 of the costs. The remaining $118,000 is attributable to various special purpose contracts with agencies such as the Trumbull County MRDD and a school for autistic students located in Mahoning County. The Special Education Coordinator indicated that these contracts are necessary because the District does not have the adequate resources in-house to meet the specific needs of certain students. However, prior to FY 2009-10, MLSD did not regularly explore partnerships with neighboring school districts to share the costs of bringing certain services in-house, conduct a comprehensive cost-benefit analysis of each contracted service to ensure that outsourcing is the most cost-efficient option, or review the feasibility of using other county educational service centers for certain services. During the course of the audit, the Superintendent indicated that the District has begun negotiating with a neighboring school district to share certain resources and is conducting a comprehensive review of the TCESC contract to generate future savings.

Lastly, HB1 contains provisions that impact funding levels in FY 2009-10 and FY 2010-11 for special education positions, and language that could impact minimum mandated

[7] ODE did not published data for FY 2008-09 during the timeframe of this assessment.

spending requirements for special education. However, as of February 2010, HB1 standards only impact the State funding formula and have not yet been adopted as required operating standards.

Financial Implication: If MLSD reduced its special education expenditures to the peer average ($793 when using all students), it could realize an annual cost savings of approximately $25,000. However, depending upon the results of implementing the aforementioned strategies, cost savings could be higher. For example, if the District reduced its purchased service costs to the peer average when excluding Lowellville LSD ($2,308), it would save approximately $179,000 annually.

Financial Implications Summary

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

Table 3-9: Recommendations Not Subject to Negotiation

Recommendation	Estimated Annual Cost Savings
R3.2 Reduce regular education staffing levels for FY 2010-11 by 7.0 FTEs.	$282,000 [1]
R3.5 Reduce the total salary costs for the office/clerical function.	$13,000
R3.8 Eliminate the early retirement incentive.	$44,000
R3.9 Reduce special education costs.	$179,000
Total	**$518,000**

Source: AOS Recommendations
[1] This would be reduced to approximately $201,000 if the District re-hires 2 FTEs in FY 2011-12 and FY 2012-13, and further reduced to $121,000 if the District re-hires 2 additional FTEs in FY 2013-14.

Table 3-10: Recommendations Subject to Negotiation

Recommendation	Estimated Annual Cost Savings
R3.3 Eliminate the health insurance related bonuses, switch employees to the lower premium plan, and require all employees to contribute 15 percent of the premium costs.	$154,000
R3.4 Reduce the life insurance coverage levels.	$1,000
R3.7 Reduce the compensation for supplemental contracts.	$36,000
Total	**$191,000**

Source: AOS Recommendations

This page intentionally left blank.

GENERAL
OPERATIONS

General Operations

Background

This section of the performance audit focuses on certain aspects of McDonald Local School District's (the District or MLSD) facilities maintenance, transportation, and food service programs. Throughout this section, MLSD's operations are evaluated against selected peer school districts[1], and leading or recommended practices and operational standards from applicable sources, including the American Schools and University Magazine (AS&U), the National Center for Educational Statistics (NCES), the American Association of School Administrators (AASA), the Government Finance Officers Association (GFOA), and the Ohio Department of Education.

Summary of Operations

A summary description of MLSD's facility maintenance, transportation, and food service programs includes the following:

Facilities Maintenance Program

MLSD is comprised of two school buildings: one elementary school (kindergarten through 6th grade) and one high school (7th grade through 12th grade). The District worked with the Ohio Schools Facilities Commission (OSFC) during FY 2001-02 to construct a new elementary school and to perform extensive renovations on the high school building. Through their work with the OSFC, MLSD has all the necessary building maintenance plans and a 0.5 mill maintenance levy that is dedicated to building maintenance. In addition, the District operates and maintains an administration office within the high school building. MLSD's student enrollment has remained relatively consistent during the last five years, averaging 916 students annually since FY 2005-06. The total enrollment in FY 2009-10 is 914 students.

The District currently employs 7.0 custodians, equaling 6.5 full-time equivalents (FTEs), that are responsible for completing the maintenance and operations functions (M&O) for the District's buildings and grounds. These functions include cleaning each school building, completing a variety of building maintenance tasks, and maintaining the exterior environment around the buildings and grounds (i.e., mowing grass, maintaining all sports fields, and removing snow and ice on walk paths and doorway entrances). The District does not employ any maintenance or groundskeeper employees. Rather, the Head Custodian estimates that 5.0 custodians perform

[1] See **executive summary** for a list of the peer districts and an explanation of the selection methodology. The "peer average" used in the audit comprises four school districts, unless noted otherwise.

building maintenance approximately 1.0 hour per day, and 2.0 custodians perform groundskeeping duties between 2.0 and 3.5 hours per day. When the employees are allocated based on functional responsibility, the M&O function is comprised of 5.4 custodial FTEs, 0.6 maintenance FTEs, and 0.5 groundskeeper FTEs. Finally, the District contracts for seasonal snow plowing of parking lots and for major building maintenance and repairs.

Table 4-1 compares MLSD's M&O expenditures per square foot for all governmental funds in FY 2008-09 to the peer average and AS&U national median.

Table 4-1: M&O Expenditures per Square Foot in FY 2008-09

	MLSD	AS&U	Peer Average
Personal Services	$2.06	$2.07	$1.85
Purchased Services	$0.33	$0.23	$0.93
Utilities	$1.21	$1.43	$1.59
Supplies & Materials	$0.56	$0.33	$0.30
Capital Outlay	$0.36	N/A	$0.14
Miscellaneous/Other	$0.00	$0.36	$0.01
Total All Governmental Funds	**$4.52**	**$4.42**	**$4.81**

Source: MLSD, OSFC, peer districts, and ODE, and the AS&U 38th report (2009).
Note: Totals may vary due to rounding.

Table 4-1 shows that MLSD's total M&O expenditures per square foot ($4.52) in FY 2008-09 were slightly higher than the AS&U national median ($4.42), but significantly lower than the peer average. However, certain cost comparisons in FY 2008-09 may be misleading because the District did not pay all its invoices due to cash flow issues, such as utilities (see **R2.7** in the **financial systems** section). Nevertheless, the District's total expenditures per square foot in FY 2008-09 are relatively consistent with the average of the last two years. Specifically, the District's M&O expenditures equaled approximately $4.10 per square foot in FY 2006-07 and $5.06 per square foot in FY 2007-08, for a two-year average cost of $4.58.

The higher personal service expenditures in **Table 4-1** when compared to the peer average are due to higher overtime costs (see **R4.2**), regular use of substitute employees (see **R4.1**), and a generous custodial salary schedule (see **R3.6** in the **human resources** section). The higher purchased services costs when compared to AS&U are due to the District's accounting system capturing costs not reflected in the AS&U data (see **R4.1**). The higher supplies and materials costs can be attributed a lack of defined purchasing policies and practices (see **R2.7** in the **financial systems** section). Although **Table 4-1** shows that MLSD's utility costs are lower than the peer average and the AS&U benchmark, this is partially due to the District not paying all its invoices in FY 2008-09. Nevertheless, the District lacks a formal energy management program and the related policies (see **R4.3**). Finally, the higher capital outlay costs are due to a combination of building improvements funded through the building maintenance levy ($16,355) and the District coding a bus lease payment ($24,465) as an M&O expenditure. If these expenditures are excluded, the District's revised capital outlay cost per square foot ($0.14) would be similar to the peer average.

Transportation Program

MLSD's policy is to provide transportation services to all elementary students (Kindergarten through 6th grade). In FY 2009-10, the District is using 3 active buses and 2 spare buses to transport 106 riders, 47 of whom live within one mile of their school building. The District employs 3.0 FTE bus drivers and provides 2 full-time custodians with supplemental contracts to serve as the Transportation Supervisor (approximately $5,100 annually) and to perform bus maintenance services (approximately $4,200 annually).

Table 4-2 compares MLSD's transportation costs to the peer average for FY 2008-09.

Table 4-2: Transportation Cost Ratios in FY 2008-09

	MLSD	Peer Average	% Difference
Salaries			
• Per Yellow Bus Rider	$406.89	$182.57	122.9%
• Per Active Bus	$22,514.67	$16,799.68	34.0%
• Per Routine Mile	$2.25	$1.20	86.5%
Benefits			
• Per Yellow Bus Rider	$95.75	$105.14	(8.9%)
• Per Active Bus	$5,298.33	$9,603.90	(44.8%)
• Per Routine Mile	$0.53	$0.61	(12.9%)
Maintenance & Repairs [1]			
• Per Yellow Bus Rider	$97.73	$59.22	65.0%
• Per Active Bus	$5,408.00	$5,325.19	1.6%
• Per Routine Mile	$0.54	$0.38	43.2%
Fuel			
• Per Yellow Bus Rider	$104.45	$55.93	86.7%
• Per Active Bus	$5,779.33	$5,109.75	13.1%
• Per Routine Mile	$0.58	$0.37	54.9%
Bus Insurance			
• Per Yellow Bus Rider	$21.64	$7.63	183.7%
• Per Active Bus	$1,197.33	$723.75	65.4%
• Per Routine Mile	$0.12	$0.05	159.7%
All Other Costs			
• Per Yellow Bus Rider	$10.65	$13.21	(19.4%)
• Per Active Bus	$589.33	$1,256.40	(53.1%)
• Per Routine Mile	$0.06	$0.11	(48.1%)
Total Expenditures			
• Per Yellow Bus Rider	$737.11	$423.70	74.0%
• Per Active Bus	$40,787.00	$38,818.68	5.1%
• Per Routine Mile	$4.07	$2.72	49.6%

Source: MLSD and peer district T-forms
[1] Maintenance and repairs includes mechanic and mechanic helper salaries, where applicable.

Table 4-2 shows that MLSD's total expenditures were higher than the peer average on per active bus, per yellow bus rider, and per routine mile basis. This is primarily due to salaries, maintenance and repairs, and fuel costs. MLSD's higher salary costs are attributed to not fully utilizing available bus capacity (**R4.4**), while maintaining more spare buses (**R4.4**) and the District's purchasing practices (see **R2.7** in the **financial systems** section) can contribute to the higher maintenance and repair costs. Additionally, the District's higher fuel costs are partially due to its purchasing practices (see **R4.6**). Lastly, the ratios of cost per rider and cost per mile in **Table 4-2** are questionable based on T-form reporting concerns (see **R4.5**). However, the number of riders and miles in FY 2009-10 suggests that the District over-reported both riders and miles in FY 2008-09. As a result, the ratios of cost per rider and cost per mile would be even higher than what is shown in **Table 4-2**.

Food Service Program

The District offers a food service program at the elementary school (grades K-6). Through the program, the District employs two staff members that are responsible for reheating and serving premade lunches to approximately 300 students daily. For accounting purposes, the food service operation is organized as an enterprise operation that is intended to be self-sufficient through user charges.

Table 4-3 presents the revenues and expenditures in MLSD's Food Service Fund from FY 2005-06 through FY 2008-09.

Table 4-3: Food Service Fund FY 2005-06 through FY 2008-09

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Revenues				
Total Operating Revenue	$52,982	$58,626	$55,659	$58,876
Total Non Operating Revenue	$42,732	$43,082	$50,134	$48,372
Total Revenue	**$95,714**	**$101,707**	**$105,793**	**$107,248**
Expenditures				
Wages	$26,707	$29,861	$31,178	$33,090
Fringe Benefits	$28,077	$28,107	$36,457	$27,946
Purchased Services	$4,433	$5,102	$4,926	$7,028
Supplies and Materials	$48,473	$39,517	$53,561	$39,199
Total Operating Expenditures	**$107,690**	**$102,587**	**$126,123**	**$107,263**
Operating Excess / (Deficit)	**($11,976)**	**($880)**	**($20,330)**	**($15)**
Operating Transfers-In	$6,000	$0	$0	$0
Beginning Fund Balance	$0	($5,976)	($6,856)	($27,186)
Ending Fund Balance	**($5,976)**	**($6,856)**	**($27,186)**	**($27,201)**

Source: MLSD 4502 Statement E
Note: Totals may vary due to rounding.

Table 4-3 indicates that the District has operated with deficit balances in the Food Service Fund each of the last four years. Furthermore, the District does not charge all appropriate costs to the Food Service Fund (see **R4.7**), which would increase the deficit balances from the levels demonstrated in **Table 4-3**. See **R4.7** for strategies to help improve the financial condition of the Food Service Fund and the **human resources** section for ways to reduce the fringe benefit costs.

Audit Objectives for the General Operations Section

The following list of questions was used to evaluate the facility maintenance, transportation and food service programs at MLSD:

- Are the District's facility staffing levels and expenditures per square foot comparable to industry benchmarks and/or peers?
- Are the District's energy management practices comparable to leading practices?
- Are the District's facility related overtime costs comparable to industry standards?
- Do the District's transportation policy and procedures meet leading practices and ensure efficient operations?
- Are the District's transportation-related financial indicators in line with peer averages and/or industry benchmarks?
- Does the District make efficient use of bus capacity?
- Are the District's T-forms accurate and reliable for decision-making?
- How can the Food Service Fund be made self-sufficient?

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The assessment of the District's overall facility staffing levels warrants a noteworthy accomplishment. Specifically, MLSD employs approximately 2.0 fewer FTEs when compared to industry benchmarks (see **Table 4-4**). Additionally, when comparing applicable costs and services, the District's purchased service costs per square foot in FY 2008-09 are consistent with the AS&U average.

Recommendations

Facilities Maintenance Program

R4.1 Given the current financial difficulties, the District should strive to continue cleaning and maintaining its buildings and grounds with the current staffing levels, contracted services, and use of substitute custodial employees. However, once the financial difficulties have been resolved, MLSD should conduct a detailed review of these functions to ensure that they are continuing to meet the District's needs. During this review, the District should also determine if it would be more effective to hire 1 to 2 custodial FTEs and subsequently reduce or eliminate the use of substitute employees and contracted services.

Table 4-4 compares staffing ratios for MLSD's M&O function to benchmarks from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) and averages reported by the *Maintenance and Operations Cost Study*.[1]

Table 4-4: Staffing Ratios

MLSD Total Square Feet Cleaned per FTE (5.4 FTE)	**34,018**
NCES Planning Guide Benchmark[1] (Sq. Ft. per FTE)	*29,500*
MLSD Total Square Feet Maintained per FTE (0.6 FTE)	**306,162**
AS&U Cost Survey National Median (Sq. Ft. per FTE)	*95,000*
MLSD Acres per Groundskeeper (0.5 FTE, 12.15 acres)	**24.3**
AS&U Cost Survey National Median (Acreage per FTE)	*40*

Source: MLSD, NCES, and AS&U
[1] *The Planning Guide for Maintaining School Facilities* (NCES, 2003) normal standard for most school facilities is 28,000 to 31,000 square feet per FTE custodian, which results in a midpoint of 29,500.

Table 4-4 shows that MLSD's custodial staff clean and maintain significantly more square feet per FTE than the respective NCES and AS&U benchmarks, but fewer acres per FTE than the AS&U average. Overall, MLSD would need to hire approximately 2.0 FTEs to achieve the respective industry benchmarks.

The higher square footage ratios in **Table 4-4** are due, in part, to the use of substitute employees. Specifically, the District regularly uses substitute custodial employees to assist with cleaning during irregular events. The Superintendent indicated that because the full-time custodial staff are busy with their daily responsibilities, substitute employees are used to fill-in during absences and to assist during sporting events. The District paid $19,960 to substitute custodians in FY 2008-09. The Superintendent further indicated that this is a more cost effective option for meeting irregular increases in demand since the

[1] The *Maintenance and Operations Cost Study* is an annual publication and the AS&U averages in **Table 4-4** are based on the averages of the last five years.

cost to hire a full-time custodian is approximately $28,000 annually plus benefits. **Table 4-1** supports this assertion by showing that the District's combined costs for personal services (includes substitute employees) and purchased services per square foot in FY 2008-09 ($2.39) is lower than the peer average ($2.78) and is close to the AS&U benchmark ($2.30). Likewise, the District's combined costs for personal services and purchased services per square foot in FY 2007-08 ($2.80) are similar to the peer average in FY 2008-09. Although this is higher than the AS&U average, this is primarily due to the District coding its final payment on a lease purchase agreement ($86,436) as a purchased service. When this is excluded, the revised cost per square foot is $2.33, which is similar to the AS&U average. The purchased services costs in **Table 4-1** from AS&U reflect only costs for "Those hired for specialized jobs to maintain or repair building systems or equipment, such as HVAC maintenance or repair." In FYs 2007-08 and 2008-09, the District's purchased service costs capture other non-labor costs, in addition to the lease agreement. For example, when excluding these costs from purchased services in FY 2008-09, the District's cost per square foot becomes $0.23, the same as the AS&U average. Finally, the Superintendent indicated that although the current staffing levels are stretched thin, the District is able to keep the buildings in excellent condition with the current mix of regular employees, substitute employees, and contracted services.

R4.2 MLSD should strive to reduce its M&O overtime costs. This can be accomplished by adopting a building access control plan, limiting access to the school buildings during non-school hours, eliminating or reducing the minimum call-in pay provisions in the classified collective bargaining agreement, and consistently charging the cost recovery fees associated with outside groups using the District's facilities. Additionally, the District should track individuals granted access during non-school hours and the reasons for such access. Furthermore, the District should review the fees for athletic ticket to ensure they reflect all applicable costs.

Table 4-1 shows that MLSD's personal service costs per square foot ($2.06) are higher than the peer average ($1.85). The higher costs are partially due to overtime accruals associated with the M&O staff. For example, MLSD's M&O overtime costs ($12,026) equaled approximately five percent of the total salaries ($257,675) in FY 2008-09. By comparison, *Best Practices: Maximizing Maintenance* (Building Operating Management, 2003) indicates that overtime should comprise no more than 2 percent of the total time spent on building maintenance issues.

The following are factors that adversely influence MLSD's overtime costs:

- **Building Access and Control:** MLSD has limited policies that address building access issues, and does not have a formal access control plan. The District's building access policy indicates that "…access to buildings and grounds outside of regular school hours is limited to personnel whose work requires such access and that a security control system is established which limits access to buildings to authorized personnel and guards against entrance to buildings by unauthorized persons." However, in practice, the Treasurer indicated that the District has provided many employees, board members and community members with building keys and access cards in the past. The Treasurer further indicated the District does not maintain a central listing of who has been granted building access during non-school hours and/or the reasons why they need access. In addition to the increased risk of theft and liability, this practice has resulted in numerous incidents of school alarms being accidentally triggered. According to the Superintendent, an alarm was accidentally triggered at least four times during one week in December, 2009. The accidental alarms contribute to overtime costs when MLSD employees are called-in during off-duty hours to reset the alarm.

Facility Management: Building Security Access Control Measures (American Institute of Architects, February 2007) indicates that building managers should adopt a building access control plan that exerts sufficient control to protect a facility while still allowing employees enough freedom of movement to work effectively. The access control plan should include a wide range of measures for limiting access to the buildings, including posting no trespassing signs, centralizing the responsibility for building security with one staff member, training staff on building security issues, distributing the security policy statements to stakeholders, requiring that school doors be closed and secured from the outside during non-school hours, restricting visitor access to building lobbies, and requiring all visitors to sign a visitor log.

- **Collective Bargaining Agreement (CBA) Provisions:** MLSD's CBA with the classified staff stipulates 2 hours of minimum call-in pay when an employee is called to work during off-duty hours. The CBA further stipulates that employees will be paid time and one-half during normal call-in events, and double-time for call-in events that occur between the hours of 11 p.m. and 6 a.m. By comparison, the classified CBAs at Bristol Local School District and Lowellville Local School District do not have minimum call-in pay provisions. The classified CBA at Southington Local School District stipulates 2 hours minimum call-in pay, but does not require employees be paid overtime or double time specifically for the call-in. The classified CBA at Columbiana Exempted Village School District stipulates 3 hours minimum call-in pay at 1.5 times the employee's regular rate of pay.

- **Cost Recovery / User Fees:** MLSD has a policy on community use of school facilities that indicates "…when school facilities are not in use for school purposes, the Board shall, upon payment of the prescribed fee and subject to the requirements of applicable regulations, permit the use of school facilities for auxiliary, educational, recreational, cultural, civic, social, religious, or other Board-approved purposes." However, in practice, the District does not consistently charge the prescribed fee when groups and community members use the facilities, even though custodial staff may need to be present and the District may incur overtime costs. Furthermore, the Treasurer indicated that the District does not consider overtime and substitute costs when establishing athletic ticket fees.

According to *Setting of Government Charges and Fees* (Government Finance Officers Association (GFOA) 1996), state and local governments use charges and fees to fund the provision of goods and services. According to economic theory, the most effective use of resources is achieved if the price for a good or service is set at a level that is related to the cost of producing the good or service. The GFOA recommends the full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.

Financial Implications: MLSD could save approximately $7,000 annually by reducing its overtime costs to 2 percent of the total M&O salaries.

R4.3 MLSD should develop an energy management/conservation program by creating formal policies and procedures. In doing so, the District should review information from industry sources (e.g., NCES, U.S. Department of Energy, and the Ohio Energy Project). Subsequently, the District should distribute and discuss the policies and procedures with the administration, faculty, staff, and students to educate and train them about energy conservation and ensure implementation of the appropriate energy management and conservation practices. The District should also review services from industry sources that would help improve energy management (e.g., Ohio Energy Project) and compare pricing to consortiums. In addition, MLSD should assign an employee to monitor District-wide and building-level utility consumption. For example, centrally tracking energy use as reported on monthly invoices would provide trend comparisons that could be used to identify potential issues of waste and/or inefficient equipment, and determine which energy conservation programs or practices are having the greatest impact. By implementing the aforementioned suggestions, the District would be in a better position to control and potentially reduce utility costs.

MLSD does not have a formal energy conservation policy or related procedures. In practice, MLSD does not regularly monitor, benchmark, or report energy usage by building, does not conduct regular meetings with employees and students to stress the importance of energy conservation, does not regularly compare natural gas prices against consortiums to ensure it is receiving the "best" price, and has not participated in energy management programs offered by external organizations.

Despite the lack of energy conservation policies, the District has recently taken some steps to improve energy use and costs. Specifically, the HVAC technology allows District officials to centrally control the temperature of each room depending on the time of day and area of need. In addition, the District recently signed a letter of intent to participate in the SchoolPool Electric Program offered by FirstEnergy Solutions. The intent of this program is to provide members with discounts on electric rates.

According to the *Planning Guide for Maintaining School Facilities* (NCES, February 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 improve energy management:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the District's energy management program, and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Conduct energy audits in all buildings to identify energy-inefficient units;
- Institute performance contracting (i.e., contracts requiring desired results rather than simply a list of needed products) when replacing older, energy-inefficient equipment;
- Reward schools that decrease their energy use;
- Install energy-efficient equipment; and
- Install motion detectors that turn lights on when a room is occupied (and off when the room is unoccupied).

School Operations and Maintenance: Best Practices for Controlling Energy Costs (U.S. Department of Energy, 2004) indicates that there are different types of energy conservation programs. Energy tracking and accounting programs are comprehensive and require the collection, recording, and tracking of monthly energy costs in all school district facilities. The data allow staff to compare energy performance in all buildings and identify problems at individual facilities. On the other hand, 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. An example of this approach is affixing "Turn the Lights Off" stickers to lighting switch plates. Quick fix and low cost programs rely on the identification and repair of simple building problems that are moderate in cost and likely have a short energy savings payback. Such programs may include replacing weather stripping on doors and windows, instituting night and weekend temperatures setbacks, and establishing district-wide shut down procedures.

The Ohio Energy Project's (OEP) mission is "To promote an energy-educated society and to facilitate leadership, through effective partnerships with schools, businesses, government and communities." OEP offers the following energy education programs:

- **Youth Energy Summit** includes interactive activities combining major energy concepts with leadership, teamwork and presentation skills;

- **Energy Workshops and Fairs** provide day long programs focused on hands-on activities about the sources and forms of energy, transformation of energy, energy efficiency, light, heat and sound, as well as challenge students to be energy leaders of their school;

- **School Audit Kit** provides materials for teachers and/or students to improve the learning environment in schools while saving energy and money, and includes OEP staff working with teachers and administrators to design a program tailored to the district's curricular needs and efficiency improvement plans; and

- **Home Energy Efficiency Kits** presents basic concepts of energy use and conservation to teachers and students with activities focused on home energy use, including introducing students to methods of measuring energy usage, determining costs, and quantifying environmental effects. OEP indicates that this program is "available to schools in the DP&L and AEP service areas."

Finally, several purchasing consortiums exist that may allow the District to receive discounted rates when using natural gas, including the Ohio Council of Educational Purchasing Consortia, and the Ohio Schools Council (OSC). The OSC consortium advertises that participation in the natural gas program is open to non-members.

Financial Implication: MLSD could save approximately $22,000 to $44,000 annually if it were to reduce its utility costs by 10 to 20 percent, which is based on the total utility costs the District reported for FY 2008-09.

Transportation Program

R4.4 MLSD should consider eliminating at least one bus from the active fleet through these practices:

- **Expanding the use of cluster stops where feasible to ensure student safety;**
- **Staggering the elementary school schedule to allow more multi-tiered routing;**

- **Conducting periodic surveys of parents to determine the number of students that will be using other methods of transportation; and**
- **Adjusting routes throughout the year, when necessary, to maximize routing efficiency.**

In addition, the District should review the composition of spare and active buses in relation to its transportation needs to determine if any spare buses could be eliminated. The District should also review its practice of providing transportation services to students that live within one mile of their school buildings. Collectively, these actions will help the District reduce costs by making the most efficient use of available bus capacity and eliminate the need to insure and maintain extra buses. As the District reviews the aforementioned strategies, it should consider other alternatives for providing transportation services, such as sharing some or all services with neighboring school districts. Lastly, the District should review the new transportation funding formula to evaluate whether expanding transportation services to 7-12th grade students would be more cost-effective than maintaining current service levels and eliminating at least one active bus.

In FY 2008-09, the District reported transporting 166 students using three active buses and two spare buses. Under this approach, the District's transportation costs equaled \$40,787 per bus, \$737 per student, and \$4.07 per mile in FY 2008-09[2], much higher than the respective peer averages of \$38,819, \$424, and \$2.72. Furthermore, the District transported an average of 55.3 students per bus, which equates to 77.9 percent of the average bus capacity. By comparison, the peer average was 93.3. In FY 2009-10, the District's ridership per bus declines to 35.3, which equates to 49.7 percent of the average bus capacity.[3] This is due to a substantial decline in the students reported on the T-forms as receiving transportation services (see **R4.5**). According to *Hidden Savings in Your Bus Budget* (American Association of School Administrators (AASA), 2005), an "effective pupil-to-bus ratio should average at least 100 pupils on a double-route, two-tier bus system. Actual capacity use must be measured with 80 percent of rated capacity as a goal." Finally, based on MLSD's FY 2008-09 ridership, size, and population density, the Ohio Department of Education calculated that the District should transport at least 74 students per bus. However, MLSD's FY 2008-09 T-form information appears questionable for decision-making purposes (see **R4.5**).

Regardless of the reliability of the T-form data, the following factors contribute to the District's higher operating costs and lower bus-capacity utilization rates:

---

[2] See the discussion accompanying **Table 4-2** and **R4.5** for data concerns related to riders and mileage.

[3] AASA is a private school transportation firm that conducts audits for more than 30 school districts.

- **Route Development and Monitoring:** The District does not have procedures in place to maximize bus route efficiency. For example, the District does not regularly update its routes during the school year and does not conduct a survey of potential riders to determine students that are eligible to ride a bus, but instead choose other methods of transportation. According to a representative at ODE, school districts should conduct an annual survey of potential riders prior to designing routes. This will eliminate some students who do not intend to ride district buses, which subsequently will help in designing routes and making efficient use of available bus capacity.

- **Cluster-Stops:** The District makes limited use of cluster stops when designing bus routes. The Transportation Supervisor indicated that there are some safety concerns that limit the use of cluster stops on all bus routes. Nevertheless, Ohio Administrative Code (OAC) Section 3301-83-13 indicates pupils in grades kindergarten through eight may be required to walk up to one-half mile to a designated bus stop.

- **Multi-tier Routing and Staggered Bell Schedules:** The current student drop-off and release times for the elementary school are 7:50 a.m. and 2:30 p.m., respectively. All three active buses complete one run in the morning to drop-off students by the 7:50 a.m. starting time. However, in the afternoon, Kindergarten students are released at 1:20 p.m. while students in the 1st through 6th grades are released at 2:30 p.m. The staggered release times in the afternoon require the buses to complete two separate runs. The Transportation Supervisor indicated that the District has not previously considered staggering the elementary school schedule so that he buses can complete two runs in the morning and afternoon. For example, students in Kindergarten through 3rd grade could operate on one schedule while students in 4th through 6th grades operate on an alternative schedule. This approach would make better use of available bus capacity by more evenly dispersing the ridership. A representative from ODE indicates that multi-tiered routing plans are a successful strategy for minimizing cost and maximizing transportation capacity. The representative further indicated that the primary benefit of multi-tiered routing is that school districts can usually reduce the size of the fleet, thereby reducing operating costs.

- **Shared Services:** One active bus is primarily responsible for transporting 10 high school students to and from the Trumbull County Technical Career Center, and one non-public student in the afternoon. Prior to FY 2009-10, the District had not considered partnering with neighboring school districts to share transportation services. According to the Superintendent, the District is currently in discussions with a neighboring district to share some transportation services. However, as of December 18, 2009, the District had not yet reached a formal agreement for the shared services. *Shared Services in School Districts: Catalogue of Best Practices* (Institute on Education Law and Policy, 2007) indicates that certain school districts in Sussex County (New Jersey) have decreased their transportation costs by at least 50 percent through by sharing cooperative routes with other school districts.

- **Transportation Policy:** According to the T-forms, the District transported 17 students that live within one mile of their school building in FY 2005-06, 4 in FY 2006-07, 18 in FY 2007-08, zero in FY 2008-09, and 47 in FY 2009-10 (see **R4.5** for data concerns). *Instructions for Preparing Form T-1 Report of Pupil Transportation Service* (ODE, 2007) indicates that students living within one mile of the school building are not eligible for reimbursement under the State funding formula.

- **Spare Buses:** The District's spare fleet accounts for approximately 40 percent of the total fleet while the peer average is 29 percent. Furthermore, according to a representative from ODE, spare buses typically comprise 20 percent of a district's fleet. The Ohio Schools Council (OSC) has a program that allows schools to sell used buses through an online auction process similar to e-bay. OSC reports that 19 buses were sold through this program in 2009 at an average price of approximately $2,500 per bus. However, the Superintendent and Treasurer indicated that it would be difficult to eliminate spare buses because they are used to meet the District's transportation needs during certain athletic seasons. As a result, maintaining the spare buses would provide additional flexibility for the District, thereby outweighing the potential savings and revenues by reducing the spare fleet.

If the District were able to reduce one active bus by adopting some of the abovementioned strategies, the revised ridership per bus would improve to 53, which is still significantly lower than the peer average (93) and the ODE benchmark (74). Finally, reviewing the policy for transporting students within one mile of the school building may allow the District to further reduce its operating costs without impacting the State funding reimbursement.

It should be noted that a new State funding formula for transportation is in effect for FYs 2009-10 and 2010-11. Most notably, the new funding formula provides increased funding for achieving or exceeding efficiency targets (measured by ridership per bus), and for providing transportation services to high school students who live more than one mile from school, students in kindergarten through eighth grade who live more than one mile but less than two miles from school, and nonpublic and community school students. However, the final funding amount in FYs 2009-10 and 2010-11 will be prorated as necessary to remain within the State's budgeted amount for transportation.

Financial Implication: It is conservatively estimated that MLSD could save approximately $13,000 annually if it eliminated one active bus. This is based on the District's salary for the least tenured bus driver and an estimate of the benefit costs using historical costs as a percentage of wages. However, MLSD may be able to realize additional costs savings related to fuel and maintenance costs, if the abovementioned strategies reduce the number of miles driven each year and/or route times. For example, based on the District's total cost per active bus in FY 2008-09, eliminating one active bus could save MLSD approximately $41,000 in annual costs.

R4.5 MLSD should establish formal policies and procedures to ensure accurate T-forms are prepared, reviewed, and reconciled before submission to ODE. As part of these procedures, the Treasurer's Office and Transportation Supervisor should be required to use the available data verification tools, compare current year T-form information to prior years, and reconcile all significant variances. The policies should also require the District to maintain all supporting documentation, file the T-forms within the mandatory timeframes, and provide periodic training to the Treasurer and Transportation Supervisor on T-form preparation and submission procedures. Furthermore, MLSD should carefully review its reported ridership and mileage for accuracy, including students reported as living within one mile from school. Taking these measures will help ensure the District receives appropriate State reimbursement for its transportation services, adheres to the reporting instructions for transportation data, and uses accurate information for decision-making.

MLSD does not have written policies and procedures in place to ensure T-forms are accurately prepared, reviewed, and reconciled prior to submission to ODE. Under the current process, the Transportation Supervisor prepares the District's T-forms based on student headcounts compiled by bus drivers during the first full week in October and submits them to the Superintendent's and Treasurer's office for review, approval and submission to ODE. Prior to FY 2009-10, the former Treasurer was responsible for preparing the T-forms.

The following inconsistencies were noted during a review of the T-forms:

- **Filing Deadlines**: ODE requires the T-1 form to be prepared, submitted, and received by November 1. ODE placed a note on the District's T-1 form indicating that although the District signed the FY 2008-09 T-1 Report on October 27, it was not submitted until November 19. The District submitted its T-2 form for FY 2008-09 within the required timeframes.

- **Inconsistent Ridership and Miles:** According to the T-forms, the District's total ridership was 193 students in FY 2005-06, 157 in FY 2006-07, 196 in FY 2007-

08, 166 in FY 2008-09, and 106 in FY 2009-10. In addition, the District reported transporting 17 students that lived within one mile of their school building in FY 2005-06, 4 in FY 2006-07, 18 in FY 2007-08, 0 in FY 2008-09, and 47 in FY 2009-10. The District could not explain the large decline in total ridership in FY 2009-10, nor the large increase in students transported within one mile of their school building. Furthermore, although the District provided adequate documentation that supports the FY 2009-10 ridership figures, it was unable to locate or provide the same level of supporting documentation for FY 2008-09. Similarly, the T-forms report daily miles of 155 in FY 2005-06, 136 in FY 2006-07, 162 in FY 2007-08, 167 in FY 2008-09, and 125 in FY 2009-10. In addition, the supporting documentation for FY 2009-10 contradicts the daily miles in FY 2009-10, showing average daily miles of approximately 135. The discrepancy is due to the mileage reported for Bus #2. Finally, ODE placed a note on the District's FY 2008-09 T-form indicating that the first submission was rejected due to incorrect ridership information (Type IV students). The District subsequently revised and re-submitted the FY 2008-09 T-forms on September 9, 2009 (FY 2009-10), and received final approval from ODE on September 24, 2009. Nevertheless, the lack of supporting documentation and ODE's initial rejection of the FY 2008-09 T-forms raises concerns about the reliability of the District's historical T-form information.

Instructions for Preparing Form T-1 Report of Pupil Transportation Service (ODE, 2007) states that "…the T-1 report and supporting documentation shall be maintained by each Superintendent for at least five years and must be made available for audit purposes. ORC Section 3317.031 requires school districts to maintain membership records showing pupils that are transported to and from school, and showing pupils that are transported living within one mile of the school attended."

- **Data Validation and Audit Report**: *Instructions for Preparing Form T-1 Report of Pupil Transportation Service* (ODE, 2007) indicates that "an audit report has been provided [in the reporting system] for your use in validating data. In this report, the data entered will be compared to your previous year's report. We [ODE] strongly recommend that you run the audit report when your data entry is complete to view the variances from previous year data. Take care to look for consistency in numbers, and also to compare the number of reported riders with your district total ADM. Districts reporting ridership that represents more than 80 percent of their registered ADM should expect closer scrutiny with regard to report auditing." However, the Transportation Supervisor, Treasurer, and Superintendent stated that they have not used the data validation and audit report functions in the past before digitally signing and submitting the T-1 form data to ODE.

- **Training:** The Transportation Supervisor and Treasurer indicated that they have not received any formal training on how to complete and report the T-form data. OAC Section 3301-83-06 indicates, "…the pupil transportation director/supervisor shall have an understanding of the educational process and the role of transportation in this process. Qualifications shall include…..annual participation in a minimum of four hours of in-service, in school transportation-related training." ODE and the Ohio Association of School Business Officials both advertise that they hold regular seminars on T-form reporting, including techniques for collecting raw data, processing the data, submitting data and self-auditing. ODE has tentatively scheduled a 2010 T-Report and Funding Seminar in northeast Ohio for June 10, 2010.

House Bill 1 includes significant changes to the State funding formula for transportation purposes. A representative from ODE indicated, "a key difference in this formula from previous formulas is that transportation funding will now be calculated based upon current year ridership, bus mileage, and service levels. This makes accurate and timely completion of the T-forms very important." Furthermore, according to *Student Transportation in Ohio* (Legislative Office of Education Oversight's (LOEO), 2003) accuracy problems for transportation-related data exists in a number of school districts and indicates that the first step in ensuring accurate T-form data is for school districts to create and adhere to formal policies and procedures that govern the submission of T-forms.

R4.6 MLSD should investigate alternatives to purchasing fuel at market prices. For instance, the District should consider collaborating with other local governments to share a fuel depot. This could allow the District to purchase fuel at a discounted price while minimizing the liability associated with multiple local governments maintaining separate fuel depots. Additionally, MLSD should begin filing with the Ohio Department of Taxation to receive the fuel tax refunds.

Table 4-2 shows that MLSD spent $5,779 per vehicle and $0.58 per mile[4] on fuel in FY 2008-09, while the peer averages were only $5,110 and $0.37, respectively. The higher costs are partially due to the District's purchasing practices. MLSD does not have an underground tank or fuel depot to use in storing and dispensing fuel. As a result, the District purchases its fuel from local gas stations at market rates, which may be higher than rates available through various consortiums and purchasing cooperatives. For example, the American Automobile Association published a survey that indicated the average market rate for diesel fuel in the Youngstown-Warren area was $2.76 per gallon in December 2009. This is consistent with the $2.78 cost per gallon the District reported on its FY 2008-09 T-2 form (filed October, 2009). In contrast, the Ohio Department of

[4] See the discussion accompanying **Table 4-2** and **R4.5** for data concerns related to mileage.

Administrative Services (ODAS) indicates that local governments purchasing fuel through its consortium paid approximately $2.65 per gallon on diesel fuel during the last week of December, 2009. Additionally, the District has not formally reviewed the costs associated with installing a fuel depot or investigated partnerships to share the use of a fuel depot with other local governments.

The Barberton City School District (Summit County, OH) and the City of Barberton collaborate to share the use and cost of a fuel depot. Specifically, the City maintains a centralized fuel depot that is used by both the City and the District. When District bus drivers refuel the busses, they swipe a card at the pump and type in an identification number. The City's software program tracks all the relevant data (driver name, date, amount, and price of fuel). The City subsequently invoices the District on a monthly basis for the use of the fuel. The agreement allows the District and the City to purchase fuel in bulk at discounted prices while minimizing the cost and liability associated with maintaining separate fuel depots.

In addition to paying market rates for fuel, the District does not take advantage of fuel tax refunds available through the Ohio Department of Taxation. School districts are eligible to receive a refund on fuel taxes by filing an application with the Ohio Department of Taxation.

Financial Implication: If MLSD could achieve the peer average fuel cost per bus ($5,110) by revising its purchasing practices, the annual savings would be approximately $2,000[5]. Additionally, it is estimated that the District could achieve an annual revenue enhancement of approximately $700 by filing for the fuel tax refund.

Food Service Program

R4.7 MLSD should take steps to address deficits in the Food Service Fund. Potential strategies that should be considered include the following:

- **Purchasing and using a point-of-sale system to monitor student purchases, manage inventory and maximize participation;**
- **Expanding the use of competitive pricing (purchasing cooperatives, competitive bidding, etc) when purchasing supplies and materials;**
- **Implementing a breakfast program;**
- **Negotiating to reduce the salary schedule for food service employees (see R3.6 in the human resources section); and**

[5] Conversely, the District would generate savings of approximately $6,100 by achieving the peer average fuel cost per routine mile. See the discussion accompanying **Table 4-2** and **R4.5** for data concerns related to mileage.

- **Reviewing other possible service delivery alternatives including outsourcing services or collaborating with other entities to share services.**

In addition, MLSD should charge all related costs to the Food Service Fund. Implementing the above strategies will help improve efficiency and reflect true operating costs in the Food Service Fund, which will then allow the District to review meal prices to ensure they reflect the actual costs of operation. Thereafter, the District should review the meal prices on an annual basis.

Table 4-3 shows that MLSD's food service program has not been self-sufficient since FY 2005-06. To assist in addressing the deficits, the District is working with ODE to identify opportunities to improve operating efficiency. However, the following strategies can also assist the District in improving the financial standing of the food service program:

- **Point-of-Sale Technology:** The District does not use an electronic point-of-sale (POS) system to account for lunch receipts, or to monitor student purchases and inventory. Rather, the District relies on teachers and the building principal to collect and remit lunch receipts on a daily basis, and manually complete tally sheets that record the number of meals served when making purchasing, inventory and menu related decisions. According to *School Foodservice Management for the 21st Century* (InTeam Associates, 1999), some of the benefits of an electronic food service management system with checks and balances and accurate data entry are increased efficiency, greater speed of data handling, reliable and accurate information, timely report processing, improved inventory control, comprehensive management reporting and analysis, nutritional analysis of meals served, reduced food and labor costs, and improved standardization. Additionally, based on information from *School Foodservice Management for the 21st Century* and POS vendors, a POS can increase participation, particularly in the free and reduced price lunch program because it can privately process meal transactions (e.g., through prepaid debit cards).

- **Purchasing Policies:** The District does not have formal policies or procedures in place to guide the Head Cook when making purchasing decisions. In practice, the District has used the same food service vendor for more than eight years, and has not submitted any of the purchases to competitive bidding during this timeframe. Furthermore, the District is not a member of any purchasing consortiums that are specifically designed for food service items. For example, the Hospital Purchasing Services (HPS) advertises that it is a member owned, super-regional group purchasing association that provides competitive pricing on a wide range of goods and services, including food service supplies and materials. The performance audit of the Chardon Local School District (Chardon LSD) in 2006 noted that Chardon LSD used HPS and other consortiums such as the Ohio Schools Council to purchase the majority of its food service supplies and materials at discounted prices. See the **financial systems** section for more information on District-wide purchasing.

- **Lunch Fees:** The District does not have formal policies or procedures for establishing and reviewing the lunch fees. In practice, the District has been charging $2.00 for every meal since FY 2006-07. Prior to this, the Head Cook indicated that the District charged $1.75 per meal for approximately eight years, and that the prior Treasurer was responsible for establishing the annual rates. *Recommended Budgeting Practices* (GFOA, 1998) states that a government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

- **Compensation: R3.6** in the **human resources** section shows that the District's salary schedules for head cooks and cooks are higher when compared to the peers.

- **Breakfast Program:** MLSD does not offer a breakfast program to its students. In contrast, Bristol Local School District, Columbiana Exempted Village School District, and the Lowellville Local School District offer breakfast programs and were able to end FY 2007-08 with surplus balances in their respective Food Service Funds. Southington Local School District does not offer a breakfast program. *School Breakfast Program, a Cost/Benefit Analysis* (University of Wisconsin, 2007) indicates that "…studies have shown that feeding children a nutritious breakfast increases their school performance, nutrition intake, and overall health while decreasing obesity, discipline problems, and illnesses. Financially, adding a school breakfast program creates an additional revenue stream, increases jobs, and brings outside capital into a community."

- **Service Alternatives:** MLSD does not regularly conduct cost-benefit analyses to review other service delivery alternatives for providing food services. For example, the District has not formally reviewed the option of privatizing the food service program or partnering with other districts or local restaurants to provide the current services. *Best Practices in Public Budgeting* (GFOA, 2000) indicates that a government should regularly examine how it traditionally provides services and consider whether the service could be delivered more effectively or efficiently if provided in a different way, either by the government itself or by entities outside of the government. Likewise according to *Shared Services in School Districts, Catalogue of Best Practices* (Rutgers University, 2007), significant cost saving can be realized when school districts collaborate to provide food services. For example, the Cornwall-Lebanon and Northern Lebanon School Districts in Pennsylvania operate with one Supervisor of Food and Nutrition Services for both districts. The districts' sharing of services has resulted in significant improvements for students. Daily menus can be planned based on the purchases for both districts. Collaboration on menus and a la carte items has helped to increase sales and improve the quality of food items offered to students in both districts. Finally, the performance audit of Fairport Harbor Exempted Village School District (Lake County) in 2008 noted that the District had developed a collaborative partnership with several restaurants to permit them to sell meals directly to the students, providing they met the nutritional and pricing guidelines imposed by the District. This collaboration improved demand for the local restaurants and eliminated the need for Fairport Exempted Village School District to incur any costs related to the food service program.

Lastly, the District does not currently charge all applicable costs to the Food Service Fund. For instance, the District does not charge the Food Service Fund for any utilities, the wages and benefits for lunchtime monitors, or a portion of teacher wages and benefits when assigned to lunchtime monitor duties. Although these additional charges will increase food service costs, charging the appropriate costs to the Food Service Fund will provide the District with a more accurate understanding of the cost to operate the food service program. This, in turn, will assist in evaluating future fees and service alternatives. According to *Measuring the Cost of Government Service* (GFOA, 2002), measuring the cost of government services is useful for a variety of purposes, including performance measurement and benchmarking, setting user fees and charges, and privatization analyses. The full cost of services includes all direct and indirect costs related to that service including salaries, wages, and benefits of employees working on the delivery of the service, as well as supplies, materials, and other operating costs such as utilities and administrative expenses.

Financial Implications: Based on **Table 4-3**, using the abovementioned strategies to eliminate the deficit in the Food Service Fund would result in a net gain of approximately $27,000 annually in the Fund. Based on prices advertised by one vendor, it is estimated that purchasing a POS system will result in a one-time cost of approximately $5,700, and annual software maintenance costs of $250.

Financial Implications Summary

The following table lists cost savings, revenue enhancements, and implementation costs identified in this section of the report.

Table 4-5: Performance Audit Recommendations

Recommendation	Annual Cost Savings	Annual Revenue Enhancements	Annual Costs	One-Time Costs
R4.2 Reduce overtime costs.	$7,000			
R4.3 Reduce utility costs.	$44,000			
R4.4 Eliminate one active bus.	$41,000			
R4.6 Investigate alternatives for purchasing fuel.	$2,000			
R4.6 File for fuel tax refunds.		$700		
R4.7 Resolve deficits in Food Service Fund.	$27,000 [1]			
R4.7 Purchase point-of-sale system.			$250	$5,700
Total	**$121,000**	**$700**	**$250**	**$5,700**

Source: AOS recommendations
[1] This is assumed to equate to a positive net gain in the Food Service Fund, which could impact revenues and costs.

This page intentionally left blank.

DISTRICT RESPONSE

District Response

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

McDonald Local Schools

Michael F. Wasser
Superintendent

Brian W. Stidham
Treasurer

600 Iowa Avenue McDonald, OH 44437 Phone: 330-530-8051 Fax: 330-530-7041

May 13, 2010

Auditor of State
Performance Audit Section
William J. Rouse, Senior Audit Manager
Lausche Building, 12th Floor
615 West Superior Avenue
Cleveland OH 44113

Dear Mr. Rouse,

This letter is McDonald Local Schools' official response to the performance audit. We would like to thank the entire performance audit team for their time and effort in completing our performance audit. Your team worked diligently to provide us with valid and useful information for the district.

The district appreciates the noteworthy accomplishments that were pointed out in the audit. Many of your recommendations are areas that this district has identified as problem areas, such as custodial costs, transportation, health benefits for both certified and classified, and supplemental contracts.

We have begun to implement many of the suggestions in your report. We have reduced in administrative, certified and classified positions for the 2009-2010 school year and plan additional reductions for the upcoming year. In addition, we are planning reductions in custodial and transportation costs and have eliminated the Early Retirement Incentive for the 2010-2011 school year. We are confident that we will provide better service to our district and community.

Bill Rouse and his audit team were true professionals throughout the entire process and we thank them for their assistance. The McDonald Board of Education's goal is to continue to operate efficiently and effectively without jeopardizing the educational process.

Response to specific audit recommendations:

The purchasing procedure as identified in the report was not typical to the practices expected of a district. In order to correct these practices, district employees are now required to obtain a signed purchase order prior to making any purchase for the district. Reimbursements have basically been eliminated except for travel, tuition, and professional leave with a few exceptions for minimal amounts of money. The use of the district credit cards has been greatly restricted and used only with prior approval. The cards themselves are housed in the Treasurer's office and signed out on an as needed basis. The district has consistently kept invoices current and eliminated finances charges since receiving the state solvency assistance funds.

The district will be reducing both certified and classified staff in the upcoming school year. Regular education staff will be reduced by 7.0 FTE and classified staff by 2.5 FTE. Administrative reductions have been made for the upcoming school year as well as the current year through the reduction of hours to the part time central office staff. The Early Retirement Incentive program has been eliminated at the end of the 2009-2010 school year. The special education area expenses will be reduced through the implementation of the recovery plan by sharing a school psychologist with Weathersfield Local Schools and reducing the special education supervisor expense through utilizing district staff rather than contract with Trumbull County ESC for the service. We are making a diligent effort to reduce maintenance and overtime costs through the reduction of staff members being replaced with substitutes when off. In addition, we have followed more closely the contracts issued to outside parties for facility use and have collected the current fee in place for the hours the facilities are actually used. These facility use fees are also being reviewed to bring them more closely in line with the actual expenses associated with outside parties using our facilities. The use of facilities and access granted to the buildings will also be reviewed in the near future. Bus routes will be reduced to one for the 2010-2011 school year. It is the intention to bus students by prioritizing students west of the truck route in the village first, then those farthest from the school until one bus is filled covering grades K-6. We are also hoping to share a bus with Weathersfield schools to eliminate our route to the Trumbull Career and Technical Center and reduce our costs in that area of transportation. T-forms are now prepared by the Transportation Supervisor and will require verification of the counts entered prior to certification by the Treasurer. This area will also need reviewed and addressed for the 2010-2011 school year as the transportation supervisor supplemental has been eliminated through the recovery plan. Our deficit in the Food Service fund has been reviewed. We have received assistance from ODE in evaluating the operations of the food service area and are awaiting advisement and further direction. We are reviewing lunch charges and will more than likely have an increase for the 2010-2011 school year. Negotiations are expected to begin in the near future for both certified and classified unions in which we hope to achieve additional savings for the district.

The Board of Education has attended training here at the district through the Local Government Services division of the Auditor of State's office to better understand the roles and responsibilities of their positions, finances of the district, and how to prevent our current situation from occurring again in the future. The Treasurer has been providing financial reports to the board on an ongoing basis since Local Government Services completed their work in balancing the books. We have also begun placing financial reports on our website, making them available to the public beginning January 2010. Going forward, we plan to involve additional staff in the development of the district budget through the implementation of departmental budgets. The input into these budgets will then be compiled into the five-year forecast projections.

Another area noted in the audit was the operation of the district pool. At the beginning of December, the district basically shut down the operation of the pool due to the estimated costs of operating it. Since that time, we have gathered additional information as to the total cost of operating it and intend to make a decision as to whether or not it will be reopened at the May board meeting. Based upon our estimation, the pool costs the district an estimated $54,000 per year.

The recommendations of the audit are greatly appreciated. With the implementation of the items we previously outlined as well as those that are upcoming, we feel that the district is heading in the right direction toward becoming financially stable once again.

Sincerely,

Michael F. Wasser

Michael F. Wasser
Superintendent

Brian W. Stidham
Treasurer

Auditor of State
Mary Taylor, CPA

Office of the Auditor of State of Ohio
88 E. Broad Street
Columbus, Ohio 43215
(800) 282-0370
www.auditor.state.oh.us