



Dave Yost • Auditor of State



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To the Residents, Board, and Administration of the Black River Local School District:

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

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. While the recommendations contained in the audit report are resources intended to assist in improvement efforts, the District is encouraged to assess overall operations and develop additional alternatives.

An executive summary has been prepared which includes background information, a District overview, financial outlook, the methodology and scope for the performance audit, noteworthy accomplishments, key recommendations, issues for further study, financial implications, and the audit objectives. This report has been provided to the District and its contents discussed with the Board and administration. 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. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Search" option.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

May 25, 2012

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Executive Summary

Background

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 February 18, 2011, the Ohio Department of Education (ODE) declared the Black River Local School District (BRLSD or the District) to be in a state of fiscal caution based on the potential for deficits. As a result, AOS initiated a performance audit of BRLSD. Based on a review of relevant information and discussions with the District, the following functional areas were included in the performance audit:

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

District Overview

BRLSD operates under a locally elected Board of Education (BOE) consisting of five members and is responsible for providing public education to students. The District is located in portions of Medina County, Ashland County and Lorain County in Northeast Ohio. The District includes all of the villages of Sullivan, Spencer, Homerville and portions of surrounding townships, covering approximately 125 square miles. In FY 2010-11, the District served 1,580 students (headcount) and employed approximately 157 full-time equivalent (FTE) employees, including 9 administrative FTEs, 90 certificated and classroom-related FTEs, and 58 classified and other support staff FTEs. Based on the FY 2010-11 ODE Local Report Card, BRLSD met 24 of 26 performance standards and received the academic designation of Excellent.

BRLSD is comprised of three primary facilities, consisting of a combined elementary / middle school, a high school, and a Board of Education building, as well as ancillary buildings (e.g., bus garage and athletic field house). In FY 2010-11, the District provided transportation services to 1,051 students. However, due to a change in transportation policy, ODE projected ridership to decline to 665 in FY 2011-12.

Financial Outlook

BRLSD maintained a structural deficit in FY 2009-10, with total expenditures exceeding revenues by \$663 per student, or approximately 7.5 percent of the total revenues. Three of the four peers also maintained structural deficits, but the average shortfall was much smaller at \$99 per student, or 1.1 percent of the total revenues. The fourth peer achieved a surplus of \$296 per student. However, the District made significant cost reductions during FY 2010-11. As a result, the August 2011 five-year forecast projects the District achieving positive ending fund balances from FY 2011-12 through FY 2014-15.

The following table presents BRLSD's financial condition after considering the impact of the performance audit recommendations,

Revised Five-Year Forecast (in 000s)

| | Forecast 2011-12 | Forecast 2012-13 | Forecast 2013-14 | Forecast 2014-15 |
|---|---------------------|---------------------|---------------------|---------------------|
| Ending Unreserved Fund Balance from Table 1-1 | \$517 | \$683 | \$837 | \$637 |
| Plus: | | | | |
| Cumulative Impact of Forecast Adjustments (R1.1) | 0 | 430 | 491 | 670 |
| Cumulative Impact of Performance Audit Recommendations (R2.1, R2.2, R3.4) ¹ | 0 | 71 | 429 | 805 |
| | | | | |
| Revised Unreserved Fund Balance | \$517 | \$1,184 | \$1,758 | \$2,112 |

Source: BRLSD August 2011 five-year forecast, with adjustments to reflect performance audit recommendations.

¹ Assumes that R2.1 will not be negotiated until FY 2013-14, due the timeframe of the current collective bargaining agreements.

The above table shows that the District could further stabilize its financial condition by implementing the performance audit recommendations. However, the projected improvement in its financial condition does not negate the need for BRLSD to continue making difficult management decisions. For example, in FY 2010-11, the District reduced staffing levels, adopted State minimum standards for transportation purposes, negotiated wage and health care concessions, and delayed capital purchases. Although these actions helped the District stabilize its financial condition in the short-term, the long-term impact on the academic program is uncertain and it will be difficult to sustain the wage and step schedule freezes and delayed capital purchases. Furthermore, the above forecast depends, in part, on the attainment of the District's projections. Therefore, significant operational, legislative and/or economic changes over the next five years could negatively impact the District's ability to attain the projected results.

This performance audit identifies areas where the District can improve efficiency and generate cost savings. The District is encouraged to review the results of this performance audit with the BOE, community and other stakeholders.

Audit Methodology and Scope

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

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

Audit work was conducted between August and December 2011, and data was drawn primarily for fiscal years 2009-10 and 2010-11. To complete this report, the auditors conducted interviews with District personnel, and reviewed and assessed information from BRLSD, peer school districts, and other relevant sources. Peer school district data and other information used for comparison purposes were not tested for reliability.

AOS primarily used four districts as peers for benchmarking purposes: Clear Fork Valley Local (Richland County), Crestview Local (Richland County), Northwestern Local (Wayne County), and Keystone Local (Lorain County). These districts were selected based upon demographic and operational data, and input from the District. External organizations and sources were also used to provide comparative information and benchmarks. They include the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the Ohio Department of Administrative Services (DAS), the Ohio Department of Education (ODE), the American Schools and Universities (AS&U), and the National Center for Education Statistics (NCES).

The performance audit process involved significant information sharing with BRLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, status meetings were held during 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, BRLSD 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 BRLSD for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

Noteworthy accomplishments acknowledge significant accomplishments or exemplary practices. The following summarizes the noteworthy accomplishment identified during the course of the audit.

- AOS identified BRLSD's staffing levels as a noteworthy accomplishment. Specifically, **Table 2-1** shows that BRLSD employed approximately 111 FTEs per 1,000 students in January, 2011, lower than the peer average of 121. Additionally, the District made staffing changes since January that resulted in a net reduction of approximately 14 FTEs. When **Table 2-1** is adjusted to reflect the staffing changes, BRLSD's revised staffing levels equate to approximately 102 FTEs per 1,000 students. These figures indicate that the District is efficiently managing its staffing levels, which has a significant impact on its financial condition.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide the District 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. If applicable, each section of the audit report will also note assessments that did not yield recommendations. The following summarizes the key recommendations from the performance audit report.

Financial Systems

- Strengthen the process for preparing the financial forecast.

Human Resources

- Negotiate to reduce healthcare and dental costs.
- Eliminate additional pension benefit administrative staff.
- Review special education program to identify cost savings.

Facilities

- Review facility staffing allocations by function.

Transportation

- Review transportation program in relation to results achieved in FY 2011-12 and the State funding formula.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that were not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or resources to pursue. The following presents issues requiring further study:

Purchasing: The District should review whether establishing a lower threshold for obtaining price quotes, requiring written evidence of competitive pricing before processing purchases, and defining the use of RFPs and other related information (e.g., what information they should contain) would improve operations and/or reduce costs. Currently, policies only require three price quotations on purchases of more than \$25,000 and do not address the use of requests for proposals. In practice, the Treasurer indicated that the District informally requires department heads and managers to obtain multiple price quotes when making most purchases. However, **Table 1-2** shows that the District spent \$543 per student on supplies and materials in FY 2009-10 while the peer average was \$499. Furthermore, a sample review of 30 purchasing transactions from FY 2010-11 revealed that only 2 included written evidence of obtaining price quotes.

Invoice Payment: The District should ensure that it is avoiding late fees, lost discounts, and the potential for service termination by paying invoices past the due date. Specifically, AOS reviewed a sample of 30 purchasing transactions from FY 2010-11, which revealed that there were 20 instances of vendor payment being issued after the due date listed on the invoice.

Financial Policies: BRLSD should consider the benefits of expanding its policies to address recommended areas from GFOA. Specifically, the policies do not address the following recommended elements from GFOA: the use of one-time revenues, contingency planning, balancing the operating budget, the use of budget stabilization funds, and certain aspects of establishing fees and charges.

Sick Leave Use: The District should review the costs and benefits of improved oversight of sick leave use, such as by regularly providing data to department heads for monitoring purposes. In addition, BRLSD should review the maximum sick leave accumulation provisions in its CBAs to determine if they have an adverse impact on employee sick leave use. BRLSD's average sick

leave use by classified staff exceeded the ODAS benchmark in FY 2009-10 and FY 2010-11. The accumulation schedule for sick leave and monitoring methods could contribute to the higher sick leave use. Specifically, BRLSD's classified CBA stipulates that employees can accumulate a maximum of 345 sick leave days, more than Clearfork Valley LSD (260) and Crestview LSD (240). Additionally, unless specifically requested, the District's managers do not receive any type of report showing sick leave usage by employee or department. This makes it more difficult for managers to accurately identify patterns of abuse, enforce the abovementioned CBA provisions, hold managers accountable for good attendance, and discipline employees for misuse of sick leave.

Staffing Plan: BRLSD should review the costs and benefits of developing a comprehensive staffing plan that is tied to goals and objectives identified in the strategic plan (see **R1.5**), and addresses other relevant factors. BRLSD does not have a formal staffing plan that uses objective workload measures to help ensure efficient and effective staffing levels, and link staffing decisions to long-term goal and objectives. In practice, the District uses judgments about classroom sizes, available financial resources, and educational and operational goals to determine staffing levels. *Strategic Staffing Plans* (SHRM, June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making in an organization.

Replacement Planning: The District should review the costs and benefits of developing a formal bus replacement plan. BRLSD does not have a formal bus replacement plan. The Transportation Director indicated that buses are replaced based on perceptions of need and the District's finances. NASDPTS states that establishing school bus replacement policies is important because it directly impacts the timeliness of introducing the latest safety, efficiency, and emissions improvements into the fleet.

Summary of Financial Implications

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

Summary of Performance Audit Recommendations

| Recommendation | Impact |
|---|------------------|
| R2.1 Negotiate to reduce healthcare and dental costs. | \$284,000 |
| R2.2 Eliminate additional pension benefit for administrative staff. | \$72,000 |
| R3.4 Purchase a computerized maintenance management system. | (\$1,000) |
| Total Cost Savings from Performance Audit Recommendations: | \$355,000 |

Audit Objectives

The following detailed audit objectives were used to conduct the performance audit of BRLSD. According to Government Auditing Standards, “the objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.”

Financial Systems

- How do the District’s revenues and expenditures per student compare with the peer districts?
- Are the District’s financial reporting, strategic planning, budgetary, purchasing and vendor payment processes consistent with leading practices?
- Does the District maintain an effective process for preparing financial forecasts?
- Are the District’s financial management policies updated and consistent with leading practices?

Human Resources

- Is the District’s staffing efficient compared to peers?
- Are the District’s salaries comparable to peers?
- Are the District’s health insurance costs comparable to leading practices?
- Are the District’s collective bargaining agreements consistent with leading practices and/or peers?
- Is the District’s special education program cost-effective?
- Does the District effectively manage sick leave usage?
- Does the District have a staffing plan that is consistent with leading practices?

Facilities

- Is the District’s custodial, maintenance and grounds staffing efficient?
- Does the District effectively manage its use of overtime?
- Does District have effective capital and preventive maintenance plans in place to maintain buildings?
- Does the District make efficient use of technology?
- Does the District make efficient use of its printers?

Transportation

- Does the District use its buses in an efficient manner?
- Are there transportation related provisions in the collective bargaining agreements that negatively impact the District's operations?
- Does the District make efficient use of routing software?
- Does the District maintain an appropriate amount of spare buses?
- Is the District's bus replacement and preventive maintenance planning consistent with leading practices?
- Does the District procure fuel in a cost-effective manner?

Financial Systems

Background

In accordance with Ohio Revised Code (ORC) § 3316.031, the Ohio Department of Education (ODE) declared the BRLSD to be in a state of fiscal caution on February 18, 2011. This declaration was based on ODE's concern about the possibility of financial deficits. In response, the District has been proactive in reviewing its operations and taking action to stabilize its financial condition. For example, the District has made staffing reductions, negotiated wage and salary schedule freezes with members of the Black River Teachers Association (BRTA) and the Black River Support Staff Association (BRSSA), and increased employee contributions to healthcare premiums. The District also proposed a five-year 7.5 mill operating levy in May and August of 2011. However, voters defeated both proposals.

Table 1-1 presents the historical and projected revenues and expenditures from a forecast the Treasurer prepared in August 2011. **Table 1-1** includes the impact of the District's cost reduction efforts.

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

| | Actual 2007-08 | Actual 2008-09 | Actual 2009-10 | Forecast 2010-11 | Forecast 2011-12 | Forecast 2012-13 | Forecast 2013-14 | Forecast 2014-15 |
|---|-------------------|-------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Local Taxes | \$4,296 | \$4,329 | \$4,840 | \$4,236 | \$4,024 | \$4,067 | \$4,291 | \$4,359 |
| State Revenues | 7,674 | 7,784 | 7,750 | 7,676 | 7,755 | 6,870 | 6,665 | 6,466 |
| Other Revenues | 515 | 358 | 302 | 358 | 771 | 770 | 770 | 770 |
| Total Operating Revenues | \$12,485 | \$12,471 | \$12,892 | \$12,270 | \$12,549 | \$11,707 | \$11,726 | \$11,595 |
| Salaries & Benefits | \$10,574 | \$11,258 | \$11,178 | \$9,903 | \$9,414 | \$9,140 | \$9,130 | \$9,313 |
| Purchased Services | 1,748 | 1,946 | 1,641 | 2,037 | 1,925 | 1,923 | 1,951 | 1,981 |
| Supplies, Materials & Textbooks | 771 | 600 | 468 | 386 | 296 | 271 | 283 | 293 |
| Other Expenditures | 375 | 178 | 189 | 171 | 221 | 221 | 221 | 221 |
| Total Operating Expenditures | \$13,468 | \$13,982 | \$13,476 | \$12,497 | \$11,856 | \$11,555 | \$11,585 | \$11,808 |
| Net Financing | (\$291) | \$707 | \$575 | \$103 | \$13 | \$13 | \$13 | \$13 |
| Result of Operations (Net) | (\$1,274) | (\$804) | (\$9) | (\$124) | \$706 | \$165 | 154 | (\$200) |
| Beginning Cash Balance | 2,223 | 949 | 145 | 136 | 12 | 718 | 883 | 1,037 |
| Ending Cash Balance | 949 | 145 | 136 | 12 | 718 | 883 | 1,037 | 837 |
| Encumbrances | 372 | 116 | 211 | 171 | 200 | 200 | 200 | 200 |
| Revised Ending Fund Balance | \$577 | \$29 | (\$75) | (\$159) | \$517 | \$683 | \$837 | \$637 |

Source: BRLSD August 2011 five-year forecast

Note: The District concluded FY 2010-11 during the course of this audit. The ending fund balance presented in Table 1-1 (\$159,000) is consistent with the District's actual ending fund balance for FY 2010-11.

Table 1-1 shows that BRLSD is projected to achieve positive fund balances for the next four years, due in large part to its cost reduction efforts. See R1.1 for additional analysis of BRLSD's five-year forecast.

Revenue and Expenditure Comparisons

Table 1-2 compares the District's revenues by source and expenditures by object for FY 2009-10, and includes references to the performance audit recommendations that would help address the higher expenditures.

Table 1-2: Revenues by Source, Expenditures by Object – Per Pupil

| | BRLSD | Peer Average | How Addressed in Report |
|---------------------------|----------------|---------------------|--------------------------------|
| Local Revenue | \$2,819 | \$2,802 | N/A |
| State Revenue | \$5,156 | \$4,798 | N/A |
| Federal Revenue | \$888 | \$750 | N/A |
| Total Revenue | \$8,863 | \$8,350 | N/A |
| Employee Wages | \$5,667 | \$4,959 | R2.2 |
| Fringe Benefits | \$2,356 | \$1,815 | R2.1 and R2.2 |
| Purchased Service | \$703 | \$801 | N/A |
| Supplies & Materials | \$543 | \$499 | See explanation |
| Capital Outlays | \$131 | \$161 | N/A |
| Other Objects | \$126 | \$115 | See explanation |
| Total Expenditures | \$9,526 | \$8,350 | N/A |

Source: ODE Expenditure Flow Model

Table 1-2 shows that BRLSD maintained a structural deficit in FY 2009-10, with total expenditures exceeding revenues by \$663 per student, or 7.5 percent of the total revenues. **Table 1-2** also shows that the peers did not experience a deficit because total revenues per student equaled the expenditures. However, this is somewhat misleading as Crestview LSD was the only peer to achieve a surplus (\$296 per student) in FY 2009-10. The other three peers maintained structural deficits of approximately \$99 per student, or 1.1 percent of the total revenues.

BRLSD's higher expenditures are primarily due to employee wages and fringe benefits. However, in FY 2010-11, the District took action to reduce expenditures in these areas, such as by reducing staffing levels and negotiating wage and health care concessions. Implementing **R2.1** (healthcare and dental costs) and **R2.2** (pension benefits) would further help limit future expenditures for fringe benefits. In addition, the District's purchasing practices can contribute to the higher expenditures for supplies and materials (see Issues for Further Study in the executive summary). The higher costs for other objects are primarily due to real estate tax collection fees, election expenses, and property and liability insurance. For example, the District spent approximately \$191,000 from the other object line-item in FY 2009-10, with abovementioned categories representing 94 percent of the expenditures. Because the other objects line-item represents less than two percent of the District's total expenditures, it was not further reviewed during this audit.

Table 1-3 compares BRLSD's per pupil expenditures by function to the peer average for FY 2009-10, and includes references to the performance audit recommendations that would help address the higher expenditures.

Table 1-3: FY 2009-10 Per Pupil Expenditures by Function

| | BRLSD | Peer Average | How Addressed in Report |
|-------------------------------------|----------------|-------------------------|------------------------------------|
| Administrative | \$1,016 | \$835 | R2.1 and R2.2 |
| Building Operations | \$1,746 | \$1,806 | N/A |
| Staff Support | \$162 | \$230 | N/A |
| Pupil Support | \$984 | \$786 | R2.1 and R2.2 |
| Instructional | \$5,619 | \$4,692 | R2.1 and R2.2 |
| Total Expenditures per Pupil | \$9,527 | \$8,349 | N/A |

Source: ODE Expenditure Flow Model

The District concluded FY 2010-11 during the course of this audit. Although expenditure flow model information from ODE was not available during the fieldwork phase of the performance audit, the District provided unaudited actual results for the General Fund in FY 2010-11. These results show that the total General Fund expenditures exceeded revenues by less than one percent. This demonstrates that the District's proactive efforts to reduce operating costs are having the desired effect.

Recommendations

R1.1 Strengthen the process for preparing the financial forecast.

The District should adopt policies and procedures that cover the process for developing the financial forecast. Subsequently, the Board should require that the document include detailed information, such as narrative and explanations within the note disclosures. When developing future forecasts, the District should include reliable estimates for base wage and step increases, and severance payouts unless the collective bargaining agreements (CBAs) specifically stipulate otherwise. Likewise, the District should review the assumptions for State funding to make sure they are reasonable.

BRLSD does not have policies or procedures that outline the process for preparing the financial forecast, including 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. In practice, the District primarily relies on the Treasurer to develop the forecast and determine the detailed assumptions, appropriate level of note disclosures, supporting documentation, and frequency of updates. AOS reviewed the District's assumptions, note disclosures, and supporting documentation for these areas: real estate property tax, State funding, personnel services, and employee benefits. A summary of issues that warrant additional review include the following:

- **Note Disclosures:** In general, the note disclosures provided as support for the May, 2011 forecast do not reflect the level of detail and analysis the Treasurer used to develop the estimates. For example, the notes for real estate property taxes only indicate that revenues are projected to increase less than two percent annually. However, the Treasurer provided documentation showing that she considered the impact of reappraisals and updates, levy structures, land values, and the large fluctuations in the historical trends when developing the revenue estimates. Additionally, the five-year forecast includes revenue estimates for tangible personal property taxes in all five-years of the forecast, despite House Bill 66 (H.B. 66) eliminating this tax for general business, telephone and telecommunications, and railroad property beginning in FY 2012-13. During interviews, the Treasurer indicated there is a significant amount of public utility property located within the District and this tax base is not being eliminated through H.B. 66. Providing additional explanation in the notes would help users better understand the forecast and show the level of effort required in developing the forecast.
- **State Funding:** In an effort to be conservative and due to the uncertainties surrounding the State budget, the Treasurer projected the FY 2011-12 State funding (unrestricted grants-in-aid) to equal approximately \$7.1 million on the May forecast. The Treasurer subsequently projected State funding to decline 3.0 percent annually thereafter, with revenues equaling \$6.4 million by FY 2014-15. During the course of this audit, the State

legislature passed H.B. 153, which is the basis for establishing State funding levels for each school district in FY 2011-12. According to reports on ODE's website, BRLSD's State funding will equal \$7.3 million in FY 2011-12. In developing the August forecast, the Treasurer updated the projected State funding to equal \$7.3 million in FY 2011-12, but left the projections for FY 2012-13 through FY 2014-15 unchanged. As a result, the average annual rate of decline changes from 3.0 percent in the May forecast to 4.3 percent in the August forecast. By comparison, the District's actual State funding only declined by an average annual rate of 1.0 percent from FY 2007-08 through FY 2011-12. Although the specific State funding levels for each school district in FY 2012-13 through FY 2014-15 are unknown at this time, projecting this revenue to decline 1.0 percent annually (rather than 4.3 percent) from the FY 2011-12 levels would still be conservative, but would have a cumulative impact of improving the District's unreserved fund balance in FY 2014-15 by \$1.7 million.

- **Salaries:** To develop the FY 2011-12 and FY 2012-13 salary projections in the August forecast, the Treasurer appropriately considered each employee's annual salary, tenure, placement on the step schedule, supplemental pay, substitutes, projected retirements/severance payments, and the potential loss of certain grant monies. The projections for FY 2013-14 and FY 2014-15 use similar overall methodology, except the Treasurer assumes there will be no wage or step schedule increases and there will be no retirement/severance payments. The current CBAs with certificated and classified staff include wage and step schedule freezes for FY 2011-12 and FY 2012-13. However, the District will have to negotiate new CBAs for FY 2013-14 and FY 2014-15. The prior CBAs covered FY 2008-09 through FY 2010-11 and provided 2.75 percent annual wage increases to classified staff and 2.5 percent annual wage increases to certificated staff. Both CBAs also permitted step schedule adjustments. For certificated and classified staff, the average step increase through the last step of the salary schedule was 3.1 percent and 0.8 percent, respectively.¹ Similarly, both CBAs have provisions allowing for severance payments upon retirement and the District budgeted approximately \$137,000 for this purpose in FY 2011-12. As a result, the assumption of no wage or step increases and no severance payouts in FY 2013-14 and FY 2014-15 appears overly optimistic. Adjusting the FY 2013-14 and FY 2014-15 salary estimates to include 2.5 percent wage increases, 2.25 percent blended step schedule increases and \$137,000 in severance payments would have a cumulative impact of reducing the unreserved fund balance in FY 2014-15 by approximately \$1.0 million. This includes the impact on salary-related benefits.

¹ The last step of the schedule is 26 for certificated staff, and 15 for custodians and secretaries, which were the two classified schedules reviewed in this analysis. Therefore, assuming a 30-year career with BRLSD, employees would average less than 3.1 and 0.8 percent for annual step increases, respectively.

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, which includes related policies, procedures, methods, and practices. If a formal work program is used in place of a system, it should adequately define the procedures, methods, and practices to be employed. Additionally, this publication identifies numerous guidelines for preparing and reviewing financial forecasts.

See the Financial Outlook portion of the executive summary for the impact of the abovementioned changes on the District's five-year forecast.

R1.2 Improve budget management.

BRLSD should develop a budget process that better communicates priorities and other pertinent information to the community and key stakeholders. The District should also ensure that steps are taken to improve oversight of the adopted budget and resolve the FY 2009-10 financial audit citations.

The District uses an informal process to prepare the annual budget (budget or appropriation measure) whereby the Treasurer is primarily responsible for developing the revenue, salary, benefit, and other non-discretionary expenditure estimates for the upcoming year. These estimates are based on historical trends, collective bargaining agreements, revenue estimates from the State and County Auditor, and known staffing and program changes. The Treasurer works jointly with the principals and department heads to prepare estimates for the discretionary accounts (supplies and materials, purchased services, capital outlay and other miscellaneous expenditures), with final proposals being submitted to the Superintendent for approval. Once the Treasurer and Superintendent are comfortable with the proposed spending levels, the appropriation measure is submitted to the Board of Education for final approval. The Treasurer establishes the first year of the five-year forecast to be consistent with the approved appropriations measure.

ORC § 5705.38 requires that a Board of Education pass its annual appropriations measure by the first day of October. The District complied with the requirements in FY 2010-11 and FY 2011-12, adopting the appropriation measure on September 23, 2010 and September 12, 2011, respectively. Although the District's budgetary process complies with the timeframe requirements, it could be improved by addressing the following:

- **Budget Document:** The budgetary documents submitted to the Board for approval consist of an appropriation resolution that quantifies estimated revenues and expenditures by fund for the current year, the five-year forecast showing the long-term impact of the budget, and a memorandum explaining key forecast assumptions and the link between the first year of the forecast and the appropriations resolution. However, BRLSD does not supplement this information by preparing, publishing or circulating a formal budget

document that communicates budget priorities for the upcoming year. *Recommended Budget Practices* (GFOA, 1999) 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, 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, and succinct and clearly-written summaries. 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.

- **Stakeholder Input:** BRLSD does not hold public meetings or community forums for the express purpose of explaining budgetary priorities to interested citizens or receiving community input. The Treasurer indicated that the public Board meetings are the only formal opportunities for citizens to provide input. GFOA indicates that 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.
- **Budget Monitoring:** Once the budget is adopted, the Treasurer indicated that the District monitors budgetary status by reviewing monthly reports and denying requisitions that exceed the available appropriation. However, the District received citations during the FY 2009-10 financial audit for having appropriations that exceeded the estimated resources; having expenditures that exceeded the appropriations; and having funds with negative cash balances. Collectively, these citations indicate that the District did not use its internal controls to ensure budgetary compliance, which could lead to a further deterioration of the District's finances if left uncorrected. This is further supported by the financial audit stating that the "...District is not adequately monitoring its appropriations versus expenditures." The Treasurer's written response to the audit citations indicates that the District will take appropriate corrective action.

R1.3 Either develop a new strategic plan or update the existing plan.

BRLSD should either develop a new strategic plan or update the existing one. Once developed or updated, BRLSD should link the strategic plan to the budget, the five-year forecast, and other related plans.

The District has a comprehensive strategic plan that was developed in 2006 and includes a

mission statement, detailed goals, strategies, action plans and performance measures. With the exception of linking the strategic plan to the budget and other related plans (five-year forecast, capital plan, etc.), the content is generally consistent with best practices identified in the publication *Recommended Practices on the Establishment of Strategic Plans* (GFOA, 2005). However, the majority of the goals were developed to cover the period from FY 2005-06 through FY 2009-10. As a result, certain goals have become outdated. For example, one goal states that "...by 2010, the Black River Local Schools will secure the necessary funding to provide and maintain appropriate school facilities, curricular and extracurricular programs which are designed to meet the identified needs of the students, staff and community." At the time the strategic plan was developed, District administrators anticipated renovating the school buildings through the Ohio Schools Facilities Commission (OSFC). However, there was no community support for the OSFC project and the subsequent bond levies failed. Furthermore, three of the five Board members have changed since the strategic plan was developed in 2006.

R1.4 Expand financial reporting and interaction with the community.

The District should endeavor to provide more financial information to its stakeholders. This could include expanding the number of reports and tools that are available through its website, preparing a comprehensive annual financial report (CAFR) and a popular annual financial report (PAFR), or providing other equivalent supplementary information. The District could also conduct annual surveys of its citizens, reestablish the use of community forums, and try again to form citizen advisory groups. Taking these steps can be helpful in communicating District priorities, accomplishments, and future plans during periods of significant change, as well as promoting the District's efforts to engage the community. However, when deciding on specific communication strategies, the District should prioritize them based on a consideration of cost and potential impact. For example, placing more information on the website has minimal cost, but the impact is limited to individuals that have the desire and ability to visit the District's website. By comparison, conducting citizen surveys will be more costly, but has the potential to provide input from a greater number of stakeholders.

The third goal from BRLSD's 2006 strategic plan states that "...by 2008, 55% of Black River stakeholders will have an accurate understanding of the school district's finances, programs, facility needs, and student achievement as measured by surveys, interviews, participation in school programs, and success of ballot initiatives." Furthermore, the strategic plan identifies the use of community forums, team ambassadors, newsletters, the website and other communication tools as action plans for achieving this goal. However, despite implementing some of these action plans, the Treasurer indicated that stakeholder communications remain a challenge. The following summarizes leading practices and actions taken by other school districts regarding stakeholder communication:

- **Supplemental Financial Reporting:** OAC § 117-2-03 requires each school district to

prepare an annual financial report in accordance with Generally Accepted Accounting Principles (GAAP). To comply with these requirements, the District prepared basic financial statements in FY 2008-09 and FY 2009-10, with the Treasurer completing the GAAP conversion in-house in order to reduce the financial statement preparation costs. The Treasurer indicated that the District does not prepare a CAFR, a PAFR, or other supplemental information equivalent to the PAFR due to the additional preparation costs. *Recommended Practices: Government Accounting, Auditing, and Financial Reporting Practices* (GFOA, 2006) indicates that state and local governments should not be satisfied with only issuing basic financial statements required by GAAP, but should instead publish a CAFR. The CAFR expands the reporting model to include information on operating environment, explanations for past spending decisions and future commitments, as well as budgetary statements and statistical information. Likewise, *Recommended Practices: Preparing Popular Reports* (GFOA, 2006) encourages governments to supplement their annual financial reports, with simpler, "popular" annual financial reports designed to assist those who need a less detailed overview of a government's financial activities. The intent of a PAFR is to provide objective information to local citizens in a clear and concise manner, using charts and graphs to interpret financial data and to help identify trends.

- **Website:** The District's website does not have an area dedicated to the Treasurer's office. Furthermore, although some financial information is included on the Board of Education's web page, this information is limited to copies of documents that were submitted to the Board for review during prior meetings. As a result, some of the information has become outdated. Keystone LSD (Lorain County) has a separate web page for the Treasurer's office and includes copies of the two most recent CAFRs, the five-year forecast and assumptions, a variety of monthly reports, and a summary of investment portfolios. The Treasurer's web page at Northridge LSD (Licking County) includes additional financial information explaining the forecast, budget reductions, local tax comparisons, and State funding; spending comparisons with other area districts; current financial outlays; as well as a published video in which the Treasurer explains the District's financial forecast and overall financial condition. Similarly, Parma CSD (Cuyahoga County) includes links to past financial and performance audits, prior year CAFRs, a purchase order search tool, the five-year forecast and assumptions, and FY 2010-11 revenue and expenditure summaries.
- **Community Forums:** The Treasurer indicated that BRLSD held approximately 17 community forums immediately after the strategic plan was adopted in 2006, with discussions focusing on BRLSD's financial status, the need for future property taxes, and plans for becoming an "Excellent" rated District by ODE. However, the Treasurer indicated that the meetings were not well attended and the District has only held a few of them in recent years. The Treasurer also indicated that the recent meetings have focused solely on the District's financial condition. *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. .

- **Surveys:** The District does not conduct surveys as a method to gauge citizen satisfaction or obtain stakeholder input. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) states that governments should use in-person, mail, phone, or internet surveys as a method to identify citizen preferences and satisfaction levels. During the 2007 performance audit of the Painesville Township Local School District (since renamed Riverside), it was noted that the District administered surveys to solicit citizen feedback. One of the surveys requested feedback on the level of satisfaction with the District's educational services, fiscal management, and communications; the adequacy of facilities and equipment; and measures to alleviate building overcrowding.
- **Citizen Advisory Groups:** The District does not have any type of citizen advisory committees or task forces in place to help review operations, obtain stakeholder feedback, and serve as a liaison between BRLSD and its citizens. The Treasurer indicated that the District tried to form a citizen advisory group in response to goals listed in the 2006 Strategic plan. However, the District received minimal response from the community when volunteers were requested. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) identifies the creation of public or neighborhood advisory groups, committees, and informal task forces as a best practice. The GFOA goes on to indicate that these groups "...are often ongoing and can be used both to seek information during planning and information gathering and can in connection with subsequent phases, including consideration of alternatives, decision-making, implementation, evaluation, and reporting. In 2009, the Hilliard City School District (Franklin County) formed an Auditing and Accountability Committee from citizens to ensure that: the district's internal and external financial reporting is reliable; the internal control structure is effective and efficient; the management practices and operations comply with all Board of Education policies and applicable laws, regulations, and provisions of contracts and grants; and management practices and operations are effective and efficient. Likewise, Parma CSD created the Facilities Integration Team in 2009, which was designed to create an implementation plan for the consolidation and configuration of the District's buildings. The group was comprised of staff, parents, residents, and local business people.

Human Resources

Background

BRLSD does not have a separate department dedicated to human resource functions. Instead, the Superintendent and Treasurer are jointly responsible for completing the majority of the District's human resource functions. Specifically, the Superintendent and Treasurer are responsible for coordinating the activities and programs for the recruitment and selection of employees, maintaining employee personnel files, monitoring compliance with employment standards, administering the collective bargaining agreements, maintaining job descriptions, and overseeing the District's compliance with Educational Management Information System (EMIS) reporting requirements. The Treasurer's Office is also responsible for processing payroll, and administering the workers compensation and employee benefit programs.

Staffing

Table 2-1 compares BRLSD's full-time equivalent (FTE) staffing levels on a per 1,000 student basis with the peer average for FY 2010-11.

Table 2-1: Staffing Level Comparison (FTEs per 1,000 Students)

| | BRLSD | Peer Average |
|------------------------------------|--------------|--------------|
| Administrative | 6.4 | 6.8 |
| Office/Clerical | 7.1 | 7.0 |
| General Education Teachers | 44.6 | 48.3 |
| All Other Teachers | 9.9 | 12.9 |
| Education Service Personnel (ESP) | 6.4 | 7.4 |
| Educational Support | 2.8 | 1.8 |
| Other Certificated | 0.0 | 0.5 |
| Non-Certificated Classroom Support | 6.4 | 6.4 |
| Operations | 25.3 | 26.0 |
| All Other Staff | 2.2 | 3.6 |
| Total Staff | 111.1 | 120.7 |

Source: FY 2010-11 EMIS data submitted to ODE.

Note: Students include those receiving educational services from the districts and excludes the percent of time students are receiving educational services outside the districts.

Table 2-1 shows that BRLSD employs fewer total staff per 1,000 students than the peer average in each category, with the exception of office/clerical and educational support. However, the District reduced staffing levels at the conclusion of FY 2010-11 that impacted the office/clerical classification. Specifically, the District reduced 3.6 FTEs, resulting in a revised staffing ratio (4.6 FTEs per 1,000 students) that is much lower than the peer average (7.01). As a result, this staffing classification was not reviewed any further during this audit.

BRLSD's educational support classification consists of 4.0 remedial specialist FTEs that are associated with the Title I program. According to ODE's EMIS manual, the Title I program represents "...an assignment area which provides instructional programs to meet the special needs of educationally deprived children, including disadvantaged youth; migrant children; handicapped, orphaned, and neglected and delinquent children." Although BRLSD has higher educational support staffing levels, its combined staffing levels for the teaching, all other teachers, educational service personnel and education support staff classifications (63.7 FTEs per 1,000 students) is lower than the peer average (70.4 FTEs per 1,000 students). Based on the specialized services provided by the education support staff and the lower total education staffing levels, this classification was not reviewed any further during this audit.

Salaries

Table 2-2 compares the District's average salary cost with the peer average for FY 2010-11. Beginning wage rates, years of service, negotiated salary schedules, and education or skill level attained impact average salaries.

Table 2-2: Average Salary Comparison

| | BRLSD | Peer Average |
|---|-----------------|---------------------|
| Administrative | \$69,095 | \$62,846 |
| Office/Clerical | \$29,716 | \$28,297 |
| Teaching | \$59,785 | \$51,284 |
| All Other Teachers | \$61,503 | \$48,765 |
| Education Service Personnel (ESP) | \$64,043 | \$51,087 |
| Educational Support | \$34,101 | \$51,394 |
| Other Certificated | \$0 | \$19,345 |
| Non-Certificated Classroom Support | \$18,276 | \$12,793 |
| Operations | \$22,796 | \$21,794 |
| All Other Staff | \$41,960 | \$31,982 |
| Total Staff | \$46,972 | \$41,255 |

Source: FY 2010-11 EMIS data submitted to ODE.

Table 2-2 shows that in total, BRLSD pays an average salary of \$46,972 while the peer average is \$41,255. See **R2.2** (pension benefits) for additional analysis.

Negotiated Agreements

The District has collective bargaining agreements (CBA) with the Black River Teachers Association (certificated CBA) and the Black River Support Staff Association (classified CBA). The certificated CBA covers all certificated/licensed personnel employed by the Board, except the Superintendent, Treasurer, principals and other individuals receiving administrative contracts. The classified CBA covers all regular full-time and part-time classified positions, including bus drivers, monitors, attendants, food service, custodians, maintenance, and secretarial/clerical. The assessments in **R2.1** (healthcare benefits) and **R2.5** (CBA analysis) impact the CBAs. In addition, sick leave use is addressed as an Issue for Further Study in the executive summary.

Assessments Not Yielding a Recommendation

The assessment of the District's certificated and classified salary schedules did not yield a recommendation. The details of this assessment are included in the finding that accompanies **R2.2** (pension benefit).

Recommendations

R2.1 Negotiate to reduce healthcare and dental costs.

The District should negotiate to increase the employee contributions to 15 percent of the premium costs, revise the benefit coverage levels to be more comparable with industry benchmarks (e.g., prescription plan, deductibles, and out-of-pocket maximums), and increase the hour threshold for receiving full health benefits (e.g. to 30 hours per week). If the District chooses to provide insurance benefits to staff working less than the threshold, it should negotiate to prorate the employee contributions based on the actual hours worked. The District should also negotiate to improve the cost-effectiveness of the dental plan, such as by increasing the employee contributions toward premium costs, lowering the maximum dental benefit, and requiring deductibles for each service. Prior to making any changes, the District should review the Patient Protection and Affordable Care Act (PPACA) to ensure that intended results will be achievable under the new legislation.

BRLSD uses its membership in the Stark County Schools Council of Government (SCSCOG) to procure medical, prescription, dental and life insurance benefits for its employees. For healthcare, BRLSD offers a Preferred Provider Organization (PPO) plan and a Traditional plan. The PPO plan covers 90 percent of healthcare costs (100 percent after out-of-pocket maximum is achieved), but requires employees to use in-network hospitals and physicians. The Traditional plan only covers 80 percent of costs (100 percent after out-of-pocket maximum is achieved), but does not limit the employee's hospital or physician choices. Of the 135 employees enrolled in BRLSD's healthcare program in FY 2011-12, only 12 were enrolled in Traditional plan.

Table 2-3 compares BRLSD's health, dental, and vision insurance premiums to the 2011 SERB survey statewide averages. Although BRLSD has two health insurance plans, the SCSCOG provides the District with a composite rate for billing purposes. As a result, the premiums reported in **Table 2-3** are the same for both plans.

Table 2-3: Insurance Premium Comparison

| | Black River LSD | SERB |
|-------------------------|----------------------------|-------------|
| Health Insurance | | |
| PPO - Single | \$549.96 | \$474.00 |
| PPO - Family | \$1,335.97 | \$1,250.00 |
| Traditional - Single | \$549.96 | \$474.00 |
| Traditional - Family | \$1,335.97 | \$1,250.00 |
| Dental Insurance | | |
| Dental - Single | \$69.86 | \$29.00 |
| Dental - Family | \$172.26 | \$82.22 |
| Vision Insurance | | |
| Vision - Single | Not Offered | \$10.89 |
| Vision - Family | Not Offered | \$21.89 |

Source: BRLSD and SERB survey

Table 2-3 shows that BRLSD's healthcare and dental insurance premiums are higher than the SERB averages for all plan types. However, the SCSCOG occasionally allows members to skip their monthly premium payments (premium holidays) depending on the funding and claims status of all members combined. The Treasurer indicated that BRLSD received three premium holidays in FY 2010-11, and anticipates receiving one premium holiday in FY 2011-12. Receiving a premium holiday reduces the net premium cost to the District. Specifically, when the premium rates in **Table 2-3** are adjusted to reflect one premium holiday, the revised effective rates decline to \$504.11 and \$1,224.64 for single and family healthcare coverage, respectively. Likewise, the revised effective dental rates decline to \$64.04 and \$157.91 for single and family coverage, respectively.

Despite the positive impact from the premium holidays, the District can improve the cost effectiveness of the health insurance program by addressing the following:

- **Participation Threshold:** BRLSD's certificated and classified CBAs both stipulate that an employee only needs to work 25 hours per week in order to receive full healthcare benefits. Furthermore, neither CBA has provisions to offer pro-rated benefits to part-time staff. Collectively, these provisions negatively impact BRLSD's total insurance costs by requiring that the District insure more employees at full coverage. In contrast, Northwestern LSD requires that both certificated and classified staff work a minimum of 30 hours per week to receive full healthcare benefits. Northwestern LSD also has provisions in both CBAs that require part-time employees to contribute varying percentages of the premiums based on the actual hours worked.
- **Benefit Coverage:** In some cases, BRLSD's healthcare plans provide generous coverage levels. Specifically, BRLSD's annual deductibles for both plans are \$100 and \$200 for single and family coverage, respectively. By comparison, SERB reports that 58 percent

of employers have annual deductibles of \$100 or higher for single coverage and 59 percent have annual deductibles of \$200 or higher for family coverage. Similarly, BRLSD's out-of-pocket maximums for both plans are \$500 for single coverage and \$1,000 for family coverage. SERB reports that the Statewide median out-of-pocket maximum is \$1,000 for single coverage and \$2,000 for family coverage.

- **Prescription Plan:** Both of BRLSD's healthcare plans provide 80 percent prescription coverage until the annual out-of-pocket maximum is met. After which, the prescription coverage improves to 100 percent with no employee co-payments. Furthermore, neither healthcare plan is structured to encourage the use of less costly options, such as tiered prescriptions and/or mail-order programs. In contrast, SERB reports that 61 percent of employers offer a three-tiered prescription plan, with employee co-payments ranging from \$10.00 to \$38.00 depending on prescription type (generic, formulary, non-formulary). SERB also reports that 77 percent of employers offer a mail-order program, with employee co-payments ranging from \$20.00 to \$70.00 depending on prescription type (generic, formulary, non-formulary).
- **Employee Contributions:** In FY 2010-11, certificated employees were required to contribute \$40.00 per month for single coverage and \$70.00 per month for family coverage. These rates equated to 7.3 percent of the single plan premium and 5.2 percent of the family plan premium, respectively. Similarly, classified staff were required to contribute \$20.00 per month for single coverage and \$25.00 per month for family coverage, which equated to 3.6 percent of the single plan premium and 1.9 percent of the family plan premium, respectively. During the course of this audit, the District negotiated new CBAs with the certificated and classified staff. The new CBAs state the employee contributions as fixed percentages with certificated staff contributing 10 percent of premium costs and classified staff contributing 5 percent. By comparison, the SERB survey reports that the average employee contribution toward single plan premium costs is 11.0 percent while the family plan contribution rate is 12.0 percent. Additionally, the 2011 Kaiser survey reports that the nationwide average single and family plan contribution rates were 18.0 percent and 28.0 percent, respectively.
- **Dental Plan:** BRLSD provides generous dental coverage. For example, BRLSD has established the annual maximum dental benefit at \$2,500 per person. Although the District has annual deductibles of \$25.00 for single coverage and \$75.00 for family coverage, these are waived for preventive and diagnostic care and for orthodontic services. Furthermore, the District did not previously require employees to contribute towards the monthly dental plan premium costs. However, the Treasurer indicated that the new employee healthcare contributions (10 percent for certificated staff and 5 percent for classified staff) will also apply to the dental premiums. SERB reports that 71 percent of employers have annual dental maximums of \$1,500 or less, and that the median employee contributions represent approximately 15 percent of the premium costs. SERB

did not report data on deductibles for dental plans.

The Patient Protection and Affordable Care Act (PPACA) was signed into Federal law in March 2010. Aspects of PPACA can impact employers' decisions regarding the provision of health insurance benefits. More specifically, PPACA allows for plans to be exempt from some of the new regulations, as a grandfathered plan. According to healthcare.gov, grandfathered plans will lose their grandfathered status if they choose to make significant changes that reduce benefits or increase costs to consumers. For example, grandfathered plans cannot decrease the percent of premiums the employer pays by more than 5 percentage points (e.g., decrease their own share and increase the workers' share of premium from 15 percent to 25 percent). Healthcare.gov also states that if a plan loses its grandfathered status, consumers in these plans will gain additional new benefits, including coverage of recommended prevention services with no cost sharing. According to a survey conducted by Mercer in July 2010, the respondents expect that the changes required for PPACA compliance will increase healthcare costs by 10 percent in 2011, with the effective increase equaling six percent by making changes to the health plan. Reviewing the PPACA legislation before enacting significant changes to its healthcare program will ensure that BRLSD achieves intended results.

Financial Implication: The District could save approximately \$114,000 annually by increasing the employee contributions to 15 percent for health and dental insurance. In conjunction with a 15 percent employee contribution, achieving the average SERB premiums by modifying the healthcare and dental plan coverage levels would result in a total estimated annual savings of \$316,000. This estimate also assumes the District would receive one premium holiday. Conversely, depending upon the actions implemented by BRLSD and the interpretation of the requirements in PPACA, the District could be subject to additional costs under PPACA. Although it is difficult to precisely quantify these additional costs, this financial implication will be lowered by 10 percent to \$284,000, in an effort to account for the potential additional costs. Based on the aforementioned information from USI Insurance and Mercer, this represents a conservative estimate.

R2.2 Eliminate additional pension benefit for administrative staff.

The District should eliminate the additional pension benefit for administrative staff.

Based on the average salary comparisons in **Table 2-2** and in consideration of materiality, AOS further reviewed salary schedules and rates in the following categories:

- **Certificated Staff:** A certificated BRLSD employee with a master's degree will earn a total of \$1,817,071 over a 30 year career while the peer average is \$1,653,540. However, this comparison is skewed due to BRLSD's location in Medina County while the four peers reside in other counties. According to ODE, agriculture represents 21.5 percent of BRLSD's land composition, which is similar to the peers. Conversely, ODE reports that

agriculture only represents 6.5 percent of the land composition for the other school districts in Medina County. Although BRLSD is much more rural than the other school districts in Medina County, the salary schedules in place at the other school districts in Medina County can impact BRLSD's ability to attract quality teachers and, in turn, affect its salary schedule. More specifically, the FY 2008-09 Ohio Education Association salary survey shows that BRLSD's beginning and ending salary for a teacher with a bachelor's degree was \$32,458 and \$53,556, respectively. By comparison, the Medina County average for the same employee group was \$35,225 and \$58,904, respectively. Likewise, BRLSD's beginning and ending salaries for a teacher with a master's degree was \$35,217 and \$61,183, respectively. The Medina County average was \$39,497 and \$68,668, respectively. It should be noted that the preceding ending salaries represent the last step of consecutive annual increases. Nevertheless, the OEA salary survey shows that BRLSD's salaries with a master's degree at 25 and 30 years of service (\$64,754 and \$66,539) are lower than the Medina County averages (\$72,963 and \$74,180). Similarly, the District's maximum salary with longevity (\$69,785) is lower than the Medina County average (\$78,842).

- **Custodial Staff:** BRLSD provides its custodians with a higher hourly rate during the first 10 years of employment when compared to the peer average. However, BRLSD's hourly rate is lower than the peer average in the 11th year of employment, and continues to be lower in all remaining years. As a result, BRLSD's lifetime salaries are comparable to the peers. Specifically, BRLSD's custodial employees will earn an average of \$999,089 over a 30 year career while the peer average is \$998,374.
- **Bus Drivers:** Similar to custodial staff, BRLSD provides its bus drivers with a higher hourly rate during the first 6 years of employment when compared to the peer average. However, BRLSD's hourly rate is lower than the peer average in the 7th year of employment, and continues to be lower in all remaining years. As a result, BRLSD's lifetime salaries are lower than the peers. Specifically, BRLSD's bus drivers will earn \$515,800 over a 30 year career while the peer average is \$554,138, assuming a bus driver works 1,040 hours annually.²
- **Administrative Staff:** Table 2-2 shows that BRLSD's average administrative salary is \$69,095 while the peer average is \$62,846. Despite the higher salary, the District also pays varying percentages of each administrative employee's share of pension costs, with the average contribution equaling approximately eight percent for 16 employees. When including the additional pension benefit, the adjusted average salary increases to \$74,682.

² Similar to certificated staff, the impact of salary schedules in place at other school districts in Medina County can impact the salary schedules in place at BRLSD for custodians and bus drivers. However, based on the peer comparisons, the salary schedules for custodians and bus drivers at the other school districts in Medina County were not reviewed.

Even if all of the peers paid the full amount of the employee's share of retirement for each administrator, the District's adjusted average salary would still be 8.0 percent higher than the adjusted peer average salary.

In response to the current financial difficulties, the certificated, classified and administrative staff agreed to wage and salary schedule freezes for FY 2011-12 and FY 2012-13. However, the administrative staff is still receiving the additional pension benefit.

Financial Implication: The District would save approximately \$72,000 annually by eliminating the additional pension benefit for all administrative employees.

R2.3 Review special education program to identify cost savings.

The District should review its account coding for the special education program to ensure that it accurately captures its various programs and activities, and is consistent with Uniform School Accounting System (USAS) requirements. The District should subsequently conduct a comprehensive review of its special education program, including student diagnosis/composition, staffing levels, and programs and curriculum, to identify cost savings without negatively impacting student performance.

Based on data in ODE's Expenditure Flow Model (EFM), the District spent \$1,200 per student on special instruction in FY 2009-10 while the peer average was \$823. However, these ratios include all students. **Table 2-4** compares BRLSD's special instruction expenditures per special education student to the peer average. The information is presented by detailed function code for FY 2009-10.

Table 2-4: Special Instruction Expenditure Comparison

| | BRLSD | Peer Average |
|---|-----------------|----------------|
| 1210 – Academically Gifted | \$482 | \$387 |
| 1221 - Handicapped | \$1,065 | \$1 |
| 1231 – Grade K-6 Multi-Handicapped | \$12 | \$182 |
| 1232 – Grade K-6 Hearing Handicapped | \$0 | \$9 |
| 1234 – Grade K-6 Orthopedically Handicapped | \$0 | \$311 |
| 1235 - Grade K-6 Severe Behavior Handicapped | \$65 | \$5 |
| 1236 – Grade K-6 Developmentally Handicapped | \$256 | \$362 |
| 1237 – Grade K-6 Specific Learning Disabled | \$129 | \$1,437 |
| 1239 - Grade K-6 Other Handicaps | \$0 | \$168 |
| 1241 - Grade 7-12 Multi-Handicapped | \$0 | \$290 |
| 1246 – Grade 7-12 Developmentally Handicapped | \$0 | \$157 |
| 1247 – Grade 7-12 Specific Learning Disabled | \$0 | \$906 |
| 1259 – Other Culturally Different | \$50 | \$0 |
| 1270 – Disadvantaged Youth | \$7,722 | \$1,506 |
| 1280 - Preschool | \$427 | \$1 |
| 1290 – Other Special | \$50 | \$206 |
| | | |
| Total | \$10,258 | \$5,928 |

Source: ODE

Note: Table 2-4 uses students classified as having a disability as the denominator. For BRLSD, this represents 11.7 percent of its total student population while the peer average is 14.1 percent.

Table 2-4 shows that BRLSD’s total special instruction expenditure per special education student (\$10,258) is significantly higher than the peer average (\$5,928), with the disadvantaged youth line-item representing the largest variance. After reviewing the results of Table 2-4 in relation to other data, AOS identified the following items that warrant additional review:

- **Student Composition:** In FY 2009-10, the District reported spending approximately \$1.8 million for special instruction. By comparison, the peer average was approximately \$1.3 million. However, the expenditure variance is not due to differences in student populations. For example, 11.7 percent of BRLSD’s student population was classified as having a disability in FY 2010-11 while the peer average was 14.1 percent.
- **Staffing:** Table 2-4 shows that the District spent \$7,722 per special needs student from the disadvantaged youth line-item while the peer average was \$1,506. For BRLSD, approximately 89 percent of the expenditure was for employee salaries and benefits, which implies that BRLSD’s special education staffing levels should be higher than the peer average. However, during FY 2010-11, the District employed 8.5 special education teacher FTEs per 1,000 students while the peer average was 9.7.³ In addition, Table 2-1 shows that the District employed only 1.0 more FTE per 1,000 students than the peer

³This reflects all students. The variance would be even greater when using only special education students.

average during FY 2010-11, when combining the educational support and non-certificated classroom support categories. Although salary and benefit levels (see **R2.1** (healthcare benefits), **R2.2** (pension benefits) and **Table 2-2**) contribute to the higher special education expenditures, it is unlikely that they would account for the entire discrepancy.

- **Disadvantaged Youth Code:** **Table 2-4** shows that approximately 75 percent of the District's special instruction expenditures are captured in the disadvantaged youth line-item while the peer average is 25 percent. According to the Uniform School Accounting System (USAS), the disadvantaged youth line-item accounts for "...special learning experiences for those pupils who can be classified as educationally disadvantaged. This category includes children from low-income families, and those handicapped, orphaned, neglected, or delinquent living in state operated institutions." The large disparity in the disadvantage youth line-item expenditures is not explained by income variances. Specifically, BRLSD's FY 2010-11 State report card shows that that 36.7 percent of its student population is classified as being economically disadvantaged. By comparison, the peer average is 38.2 percent.
- **Other Expenditure Coding:** **Table 2-4** shows that the District did not record expenditures in any of the grade 7-12 handicap/disability line-items while the peer average was \$1,353, or 23 percent of the total expenditures. Similarly, **Table 2-4** shows that the District spent \$1,065 per special needs student from the handicapped line-item while the peer average was only \$1.

ODE publishes a Special Education Fiscal Accountability (SEFA) report that shows each school district's minimum required spending for special education purposes in FY 2009-10, as determined by ODE. For BRLSD, the SEFA report indicates that the minimum spending requirement was approximately \$1.4 million. In FY 2009-10, the District reported spending approximately \$1.8 million for special instruction purposes. Considering that other function codes besides special instruction can also be used to satisfy the minimum spending requirement, the District has some flexibility to reduce its spending levels in the special instruction function code and still comply with the minimum requirements. For example, reducing health insurance costs (see **R2.1**) would help reduce special education costs.

R2.5 Negotiate to lower severance payouts.

The District should negotiate to reduce its severance payouts to be more comparable to the peers or ORC minimum requirements.

A review of BRLSD's certificated and classified CBAs found that with the exception of severance payouts, the District's CBA provisions are generally comparable to the peers. Both of the District's CBAs stipulate that employees receive a severance payout at retirement equal to 25

percent of accumulated sick leave, with the maximum payout capped at 80 days. By comparison, Crestview LSD provides its certificated and classified staff with maximum severance payouts of 60 days and 50 days, respectively. Likewise, Northwestern LSD caps its severance payout at 65 days for both certificated and classified staff. Finally, ORC § 124.39 indicates that if an individual retires from active service with ten or more years of service with the State, they are entitled to be paid in cash for one-fourth of the value of the employee's accrued but unused sick leave credit up to a maximum of 30 days.

BRLSD's severance pay provisions result in higher operating costs and future long-term liabilities. For example, assuming a certificated employee with a master's degree retires with 320 days of accumulated sick leave, the District's severance liability would be approximately \$30,000 while Crestview LSD's liability would be \$20,000 in the same circumstances.

Facilities

Background

BRLSD is comprised of three facilities, consisting of a combined elementary school / middle school, a high school, and a Board of Education building, as well as ancillary buildings (e.g., such as a bus garage and athletic field house). The District's student enrollment (headcount) has steadily decreased over the last four years, averaging an annual decline of 3.3 percent from FY 2007-08 to FY 2010-11. BRLSD's total enrollment in FY 2007-08 was 1,750 students and has fallen to 1,580 students in FY 2010-11, equaling a 9.7 percent decrease.

BRLSD has 11 employees that are responsible for completing the maintenance and operations (M&O) for the District's buildings and grounds. These functions include cleaning all areas of each school building, completing a variety of building maintenance tasks, and maintaining the exterior environment around the buildings and grounds. The Maintenance Supervisor oversees the District's M&O function, with help from two assistant maintenance supervisors. The three positions are working supervisors who complete maintenance and grounds keeping work, including all snow plowing, in addition to their supervisory duties. **Table 3-1** shows BRLSD's staffing levels for the M&O function by position and based on functional responsibility.

Table 3-1: M&O Staffing Distribution

| Function | Total Number of Positions | Number of Full-Time Equivalents |
|----------------------|---------------------------|---------------------------------|
| Custodians | 7.0 | 5.7 |
| Building Maintenance | 3.0 | 1.4 |
| Groundskeepers | 1.0 | 1.3 |
| Total | 11.0 | 8.4 |

Source: BRLSD

Note: This excludes the 0.8 supervisory FTE that is divided between the Maintenance Supervisor and two assistant maintenance supervisors.

Table 3-1 shows BRLSD employs 5.7 custodial FTEs, 1.4 building maintenance FTEs, and 1.3 groundskeeper FTEs, based on estimates from the Maintenance Supervisor for functional responsibilities. Although BRLSD classifies its M&O employees as either custodians or building maintenance, custodians perform minor maintenance and building maintenance perform the majority of grounds work. The District also employs temporary summer grounds help.

Key Statistics and Indicators

Table 3-2 compares key statistics for BRLSD'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* (AS&U).

Table 3-2: Key Statistics and Indicators

| | |
|---|----------------|
| Total Square Feet Maintained¹ | 213,648 |
| Total Square Feet Cleaned¹ | 199,071 |
| Total District Acreage | 60.0 |
| Total Square Feet Cleaned per FTE (5.7 FTEs) | 34,925 |
| <i>NCES Planning Guide Benchmark (Sq. Ft. per FTE)²</i> | 29,500 |
| Total Square Feet Maintained per FTE (1.4 FTEs) | 152,606 |
| <i>AS&U Cost Survey National Median (Sq. Ft. per FTE)³</i> | 95,000 |
| Total Acreage Maintained per FTE (1.3 FTEs) | 46.5 |
| <i>AS&U Cost Survey National Median Acreage per FTE⁴</i> | 40.2 |

Source: BRLSD, National Center for Education Statistics, and American School and University Magazine

¹ This reflects square footage for the two educational buildings, the administration buildings, and other facilities maintained and/or cleaned by facility staff (e.g., field house, bus garage, press box, and pavilion).

² According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose health issues.

³ The AS&U are based on a five-year average (FY 2004-05 to FY 2008-09) derived from the national surveys.

Table 3-2 shows that BRLSD M&O staff in each functional area maintain more square footage and acreage than the respective benchmarks. See **R3.1** for additional analysis of staffing levels.

Financial Data

Table 3-3 compares BRLSD M&O expenditures per square foot for FY 2009-10 to the peer average, and includes references to the performance audit recommendations that would help address the higher expenditures.

Table 3-3: Facilities Expenditures per Square Foot FY 2009-10

| Line-Item | BRLSD | Peer Average | How Addressed in Report |
|---|---------------|---------------|-------------------------|
| Salaries and Wages | \$1.90 | \$1.64 | See below explanation |
| Employee Benefits | \$0.92 | \$0.73 | See R2.1 |
| Utilities | \$0.97 | \$1.31 | N/A |
| Purchased Services | \$0.48 | \$0.94 | N/A |
| Supplies and Materials | \$0.47 | \$0.40 | See below explanation |
| Capital Outlay | \$0.00 | \$0.07 | N/A |
| Other Objects | \$0.00 | \$0.00 | N/A |
| Total Expenditures per Square Foot | \$4.74 | \$5.10 | |

Source: BRLSD and Ohio Department of Education

Note: BRLSD's square footage reflects all facilities/areas maintained, whereas the peers' square footage reflects school and administrative buildings because that data is readily available. When including just the school and administrative buildings, BRLSD's expenditures per square foot increases to \$5.46. However, utility and purchased service costs per square foot (\$1.12 and \$0.56) are still below the respective peer averages.

Table 3-3 shows that with the exception of salaries and wages, employee benefits, and supplies and materials, BRLSD's M&O expenditures per square foot were lower than the peer average in FY 2009-10. The variance in salary and wage costs are due to the District's use of overtime and temporary labor for certain building and grounds maintenance functions in FY 2009-10. However, the District made significant reductions in these costs during FY 2010-11 (see *Assessments Not Yielding a Recommendation*). The variance in employee benefits is due to the District providing generous health insurance benefits (see **R2.1**). The variance in supply and material expenditures can be partially due to the District's purchasing practices (see Issues for Further Study in the executive summary). However, the District reduced its supplies and materials expenditures from approximately \$100,000 in FY 2009-10 to \$75,000 in FY 2010-11.

Assessments Not Yielding a Recommendation

The following assessments yielded no recommendations:

- Overtime/Temporary Labor:** In FY 2009-10, BRLSD spent approximately \$51,000 on facility related overtime and temporary labor costs, which equated to 12.5 percent of total salary and wage costs. By comparison, the peer average was 7.9 percent. However, in FY 2010-11, overtime and temporary labor costs decreased to 7.1 percent of total salary and wage costs because the District employed one summer grounds helper compared to ten in FY 2009-10. To limit overtime and temporary labor costs, the District uses substitutes to cover custodial absences and the salaried maintenance staff to complete snow removal. Furthermore, the Black River Support Staff Association CBA does not include any provisions that create the need for excessive overtime and temporary labor costs.

- **Printers:** BRLSD has more students per printer (64.5) and teachers per printer (3.4) than the peer averages (43.2 and 2.6, respectively), based on the 2008-09 BETA Survey, which is the most recent available. The District has not purchased additional printers since the 2008-09 BETA Survey. Further, laser printers comprise 92.3 percent of BRLSD's total printing devices (24 of 26). This is generally similar to three of the four peers, where laser printers comprised 90.2, 93.0 and 100.0 percent of the total printing devices.

Recommendations

R3.1 Purchase a computerized maintenance management system and review facility staffing allocations by function.

BRLSD should purchase a computerized maintenance management system (CMMS) that has the ability to track the information recommended by NCES. When making the purchase, the District should require the vendor to provide employees with appropriate training to fully use the functions of the system. BRLSD should subsequently use the CMMS to review the various functions performed by its facility staff, and compare its staffing levels and workload measures to industry benchmarks.

BRLSD does not use a CMMS to manage its work requests, assign tasks to staff, or track other important information. According to the Maintenance Supervisor, most work order requests are initiated via word-of-mouth or email, and the paper-based work order form is not routinely used. As a result, the District has difficulty accurately determining how the custodial and maintenance staff split their time between the cleaning, building maintenance and grounds keeping functions. **Table 3-4** compares BRLSD's estimated FTEs dedicated to the various functions to the number required to meet the benchmarks identified in **Table 3-2**. The FTEs by function are based on the Maintenance Supervisor's best estimates of how each employee spends their time.

Table 3-4: BRLSD Staff Comparison to Industry Benchmarks

| Classification | Estimated FTEs | FTEs to Meet Benchmark | Difference |
|------------------------------|----------------|------------------------|------------|
| Custodial Staff | 5.70 | 6.75 | (1.05) |
| Maintenance Staff | 1.40 | 2.25 | (0.85) |
| Grounds Keeping Staff | 1.29 | 1.49 | (0.20) |
| Total ¹ | 8.39 | 10.49 | (2.10) |

Source: BRLSD, NCES, and AS&U Magazine

¹ Excludes the 0.80 FTE associated with supervisory duties.

Table 3-4 shows that BRLSD's staffing level in each classification is lower than the respective benchmark. **Table 3-4** also shows that BRLSD spent \$0.48 per square foot on purchased services in FY 2010-11 while the peer average was \$0.94. Collectively, these ratios demonstrate the District is maintaining efficient facility staffing levels and limiting the need for contracted services.

Although the above shows that BRLSD is efficiently staffed, the lack of documented employee time allocations increases the risk of not making appropriate long-range staffing decisions. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that "...to assess staff productivity, the organization must establish performance standards and evaluation criteria." The NCES also indicates work order systems can help school districts register and acknowledge work

requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. The NCES goes on to state that "...the purpose of the CMMS is to manage work requests as efficiently as possible and meet the basic information needs of the District."

Financial Implication: A CMMS could cost approximately \$1,000 annually, based on a vendor's advertised price. However, the exact price will depend on the features desired by BRLSD and the contract terms negotiated with the vendor.

R3.2 Develop a capital improvement plan.

BRLSD should develop a comprehensive five-year capital improvement plan that is updated on an annual basis. Doing so would help ensure that critical repair work and equipment replacement is completed.

BRLSD does not have an updated, formal capital improvement plan to address maintenance and capital needs. According to the Maintenance Supervisor, the District's plan was last updated in 2008 as part of a District-wide strategic plan (see **R1.3**). Furthermore, the District does not have a steady revenue stream to use in funding capital improvement projects. For example, it does not have a permanent improvement levy nor does it set aside a specific percentage of General Fund revenue to use in funding capital improvements.

Best Practices in Public Budgeting (GFOA, 2000) indicates that a government should have a process in place for evaluating proposed capital projects and financing options, and developing a long-range capital improvement plan that integrates projects, timeframes, and financing mechanisms. The capital plan should project at least five years into the future and should be fully integrated into the government's overall financial plan. The process for developing the plan should allow ample opportunity for stakeholder involvement in prioritizing projects and review. Subsequently, the governing body should approve the capital plan.

Given the lack of dedicated funds for capital improvements, a capital improvement plan is important in helping the District anticipate facility and equipment repair needs, prioritize projects by building and year, secure alternative financing, properly maintain equipment, and allocate limited resources.

R3.3 Develop a formal preventive maintenance program.

BRLSD should develop a formal preventive maintenance (PM) program. This can be aided by the purchase of a computerized maintenance management (see R3.4).

BRLSD does not have a formal (written or electronic) preventive maintenance plan. According to the Maintenance Supervisor this is partially due to the District's financial challenges. BRLSD performs only limited preventive maintenance activities on a regular basis, such as annual

cooling tower and boiler cleanings.

The Planning Guide for Maintaining School Facilities (NCES, 2003) indicates that a good maintenance program is built on a foundation of preventive maintenance. After identifying items that should receive preventive maintenance, a district then decides on the frequency and type of inspections and maintenance activities to be performed. Manufacturers' manuals are helpful when developing this schedule because they usually provide guidelines about the frequency of preventive services, as well as a complete list of items that must be maintained. Ideally, a computerized maintenance management program schedules the preventive maintenance activities (see **R3.4** for additional discussion). However, a district could use index cards and folders to record the equipment, services to be performed, date service is performed, name of technician, and cost of materials.

Transportation

Background

ORC § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten (K) through eight who live more than two miles from their assigned school. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to public school students. In addition, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. Prior to FY 2011-12, the District provided transportation services to all students living more than a mile from their school building. However, to help reduce costs, the District adopted the State minimum requirements in FY 2011-12.

Operational Statistics

The Transportation Director oversees the District's transportation function. BRLSD provided Type I pupil transportation services to 1,051 riders in FY 2010-11. However, due to the change in transportation policy, ODE projected ridership to decline to 665 in FY 2011-12. Type I services pertain to those provided on District-owned yellow buses.

Table 4-1 compares BRLSD's transportation data for FY 2010-11 to the peer average.

Table 4-1: Key Statistics and Operating Ratios

| Key Statistics | BRLSD | Peer Average |
|---|----------|--------------|
| Operating Ratios | | |
| Enrollment per Square Mile | 14 | 18 |
| Riders per Square Mile | 9 | 9 |
| Public Riders as Percent of Enrollment | 67% | 50% |
| Yellow Bus Riders per Active Bus | 62 | 52 |
| ODE Efficiency Measure | 1.13 | 1.02 |
| Spare Bus Ratio | 19% | 30% |
| Transportation Cost Ratios¹ | | |
| Total Cost per Yellow Bus Rider | \$736 | \$1,118 |
| Total Cost per Active Bus | \$45,498 | \$56,673 |
| Total Cost per Routine Mile | \$2.92 | \$4.34 |

Source: BRLSD and peer district T-forms.

¹ The District's and peers' expenditure reports (T-2) for FY 2010-11 were submitted to, but not yet approved by, ODE at the time of this assessment. In FY 2009-10, the District's total cost per rider was \$787, per active bus was \$46,290, and per routine mile was \$2.69, all much lower than the respective peer averages for FY 2009-10.

Table 4-1 shows that BRLSD transported more yellow bus riders per active bus at a lower cost than the respective peer averages in FY 2010-11. Likewise, **Table 4-1** shows that BRLSD achieved a score of 1.13 from ODE's efficiency measurement system while the peer average was 1.02. *Pupil Transportation Efficiency Targets* (ODE, 2009) indicates that the efficiency measure represents how closely a school district is meeting its targeted number of students transported per bus. The publication goes on to state that each school district has a unique target established by ODE based on its geography and population demographics. Under this model, an efficiency measure less than 1.0 indicates that a school district is not reaching the established target. The abovementioned comparisons show that BRLSD maintained a relatively efficient transportation program in FY 2010-11. However, due to the changes the District implemented prior to the start of FY 2011-12, ODE projects the riders per bus and ODE efficiency measure to decline to 44 and 0.84, respectively. See **R4.1** (transportation policy) for additional discussion. Likewise, the District's spare bus ratio is projected to increase to 32 percent. See **R4.3** (spare fleet) for additional discussion.

Assessments Not Yielding a Recommendation

Assessments of the District's transportation-related collective bargaining agreement provisions and fuel security did not yield recommendations.

Recommendations

R4.1 Review transportation program in relation to results achieved in FY 2011-12 and the State funding formula.

The District should conduct a comprehensive review of its transportation program in relation to the State funding formula adopted in FY 2013-14. If the State reactivates the transportation funding formula, the District should review the option of re-instating the expanded service levels and subsequently focusing on ways to reduce the number of active buses. This could be accomplished by having buses complete multiple routes, reviewing the potential for expanding the use of cluster stops,⁴ and continuing to use software to optimize routes. Likewise, based on the efficiency levels achieved in FY 2010-11, other scenarios developed with ODE, and the potential for projections to deviate from actual data, the District should review the results of the changes made in FY 2011-12 prior to the start of FY 2012-13. This would ensure optimal efficiency under the reduced service levels.

In FY 2010-11, the District transported students in grades K-12 using double-tiered routing. The District also transported grades K-8 within a one mile walk zone. At this level, the District's total cost per rider, bus and mile were significantly lower than the peer average, and BRLSD achieved an ODE efficiency measure of 1.13. In FY 2010-11, the State funding a school district received for transportation purposes was based primarily on the number of students transported, with positive adjustments for providing high school transportation, transporting students in grades K-8 within a one mile walking zone, and exceeding the established efficiency target.

In response to the current financial difficulties, the District worked with ODE representatives in the spring of 2011 to review five scenarios for modifying the transportation program. After review and discussion, the District chose to eliminate high school busing and the 1 mile walk zone, but only reduced two active buses from the fleet. Based on the aforementioned scenarios, the financial impact from this change was originally projected to be minimal. However, in June 2011, the State adopted a new funding formula that holds the FY 2011-12 and FY 2012-13 revenues constant at the FY 2010-11 levels. This provision now allows the District to maintain its revenues for the next two years despite operating at reduced service levels. However, the change in transportation funding could be temporary. The Transportation Coordinator at ODE indicated that although changes in service levels will not impact funding at this time, the old formula is still in law and could be reactivated in FY 2013-14. As a result, changes in local school district transportation programs will impact funding at that time. For BRLSD, this could mean lower funding levels for transportation by maintaining lower service levels (i.e., no high school busing). The Transportation Coordinator goes on to state that "...the reality of our task is

⁴ According to the Transportation Director, the District makes limited use of cluster stops because there are very few sidewalks available. According to Ohio Administrative Code Section 3301-83-13, pupils in grades kindergarten through eight may be required to walk up to one-half mile to a designated bus stop.

that pupil transportation administrators and district administrators will need to continue to manage their transportation plans so as to operate very effectively, and to safely transport as many students for as low a cost as possible. This will require everyone to review all aspects of their operation very closely, and to study and manage logistics and services carefully so as to minimize cost.”

R4.2 Cross-train other employees to complete key transportation activities.

The District should take steps to cross-train at least one other employee to complete key transportation activities, such as compiling the T-forms and the using the routing software. To assist in this area, the District should develop written instructions for these activities.

The District lacks appropriate cross-training for certain key activities within the Transportation Department. For example, the Transportation Director is the only employee that is trained to prepare the T-forms and use the routing software, and the District lacks policies, procedures and other manuals to provide additional guidance. Based on documentation reviews, it is apparent that recent T-form submissions are materially accurate and that the District is effectively using the routing software. However, the lack of cross-training and other support documentation increases the risk of inefficiency and/or data integrity issues should the Transportation Director resign or take extended leave, which could result in a loss of State funding for transportation purposes.

The article *Cross-Training: A Case Study* (SANS Technology Institute, 2007) indicates that every organization has a need for cross-training and warns of potential problems due to single points of failure. The article also indicates that when only one person knows how to support a given technology or perform the required work and they need to go on vacation, decide to retire, meet with an unfortunate and untimely accident or any other similar scenario, the company is at risk.

R4.3 Review the size of the spare fleet.

The District should review the size of the spare fleet to achieve the 20 percent spare bus ratio suggested by the Federal Transit Administration (FTA) and ODE.

The District reported on its T-forms that it has seven spare buses in FY 2011-12, which represents 32 percent of the total fleet. By comparison, the FTA has adopted a policy stating that the number of spare buses should not exceed 20 percent for grantees operating more than 50 active vehicles in a fleet. Likewise, according to the Transportation Coordinator at ODE, spare buses typically comprise 20 percent of a district’s fleet. Under current operations, the District would need to reduce 3 spare buses in order to achieve the 20 percent ratio. However, the Transportation Director indicated that certain complications may prevent the District from immediately making this type of reduction. For example, three of the spares are smaller capacity

buses that can only be used on certain routes due to the District's new single-tier transportation policy. Likewise, two of the spares were not submitted to the State Highway Patrol for inspection due to rust and mechanical problems, and the District has not determined whether they will be repaired or used for parts. Nevertheless, owning more buses than necessary can have an adverse impact on the District's insurance costs, particularly when considering that two of the existing vehicles cannot be used for their intended purpose.

R4.4 Develop a formal preventive maintenance program.

The District should develop a formal preventive maintenance (PM) program for maintaining its vehicles, and update the PM plan on a regular basis to reflect continuing needs. R3.3 in the facilities section indicates that the District should develop a PM program for its buildings, which would be aided by purchasing a computerized maintenance management system (CMMS). Prior to implementing this recommendation, the District should review the various CMMS packages to determine if any can also track and report vehicle maintenance activities. Using a CMMS in this manner would help the District make efficient use of the software and improve transportation recordkeeping.

The District does not have a formal PM program for its vehicles. The Transportation Director provided documentation demonstrating that PM activities take place. However, these activities are more informal based on current needs rather than as part of a documented long-term PM program. Furthermore, the Transportation Director indicated that due to workload, the Bus Mechanic is falling behind in efforts to manually document, track and report bus repairs, making it difficult to determine the extent of recent PM activities or specific vehicle performance.

The *Public Works Management Practices Manual* (American Public Works Association, 2001) indicates that fleet managers should develop a PM program for all equipment. The publication goes on to state that "...preventive maintenance programs address the type of equipment, the duty cycle of the equipment, and provides for routine inspection and maintenance of the fleet to meet the life expectancy. Planning preventive maintenance activities includes: definition of work to be performed; diagnosis of work to be performed prior to scheduling; estimate of labor hours, materials, shop space and time; and documentation to support maintenance action."

District Response

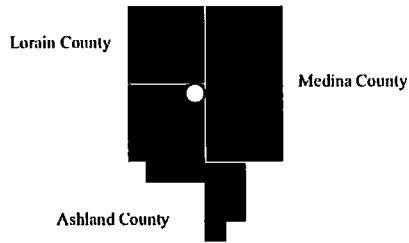
The letter that follows is the District's official response to the performance audit. Throughout the audit process, staff met with District officials to ensure substantial agreement on the factual information presented in the report. When the District disagreed with information contained in the report and provided supporting documentation, the audit report was revised. While the District's official response did not require any modifications to the performance audit report, the following is intended to clarify certain items mentioned in the response:

- **Revenue and Expenditure Comparisons:** The performance audit used the most up-to-date revenue and expenditure information, FY 2009-10, available during the fieldwork phase of the audit. Further, the performance audit acknowledges that unaudited financial data for FY 2010-11 provided by the District during the audit shows the District reduced expenditures.
- **Five-Year Forecast:** The five-year forecast reviewed during the performance audit ended with FY 2014-15.
- **Healthcare:** The District's premium holidays and their impact on net effective health insurance premiums were recognized in the narrative following **Table 2-3**.

Black River Local School District

Board of Education

Bruce Goff, President
Janet Eichel, Vice President
Michael Gannon
Dan Sexton
Jody Weidrick



Administration

Janice Wyckoff, Superintendent
Connie I. Hange, Treasurer

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February 10, 2012

Dave Yost, Auditor of State
 88 East Broad Street, Fifth Floor
 Columbus, Ohio 43215-3506

Dear Mr. Yost,

The Black River Local School District appreciates your efforts throughout the performance audit to assist the district in identifying areas where the district could save money. Your staff was very personable and professional during the entire process, which made it a pleasant experience.

Revenue and Expenditure Comparisons

Given the timing of the performance audit a majority of the financial portion of the audit was completed based on FY 2009-10. The concern with this is Black River Local School District has taken drastic steps to reduce our per pupil expenditures. Below is a comparison table of the FY2009-10 per pupil expenditures and the FY2010-11 per pupil expenditures. The numbers relating to the FY2010-11 expenditures are from the Ohio Department of Education (ODE) Staffing Analysis for Black River Local School District completed on February 6, 2012.

Table 1 Total Expenditures Per Pupil (EPP)

| Total Expenditures EPP All Funds | BRLSD | Peer Average | State Average | Information Source |
|-------------------------------------|---------|--------------|---------------|----------------------------|
| FY2009-10 | \$9,526 | \$8,350 | \$10,564 | Performance Audit / ODE |
| FY2010-11 | \$8,714 | \$8,734 | \$10,572 | Staffing Analysis / ODE |

Black River Local School District has made great strides in reducing spending. The overall reductions in expenditures could ultimately affect the district's ability to maintain an "Excellent" rating on the Ohio Department of Education's Local Report Card released annually. The reduction in expenditures may also affect the curriculum, which in turn may affect our students' ability to enter college or go directly into the work force after high school.

The revenue per pupil (RPP) in the performance audit is also based on FY2009-10. The table below compares FY 2009-10 RPP and FY2010-11 RPP.

Table 2 Total Revenue Per Pupil (RPP)

| Total Revenue RPP All Funds | BRLSD | Peer Average | State Average | Information Source |
|-----------------------------|---------|--------------|---------------|-------------------------|
| FY2009-10 | \$8,863 | \$8,350 | \$10,509 | Performance Audit / ODE |
| FY2010-11 | \$8,304 | \$8,520 | \$10,614 | ODE |

As displayed in Table 1 and Table 2 even though Black River Local School District has made significant reductions in expenditures the district's revenues have also declined. Unfortunately the revenue for the Black River Local School District has not increased at the same rate as the comparison districts (Clear Fork Valley Local – Richland County; Crestview Local – Richland County; Northwestern Local – Wayne County; and Keystone Local – Lorain County) or the average for the State of Ohio.

Five-Year Forecast

Several items were mentioned related to the district's financial forecast. The first of those items being the note disclosures regarding the five-year forecast. It had been the experience of the Treasurer that the users of Black River's forecast tend to prefer short and simple explanations. However, the Treasurer will work to expand the notes without making them more complicated.

Secondly the State Auditors indicated that the Treasurer was too conservative in the amount by which State funding is projected to decline. Beginning with the February 2012 first payment, Black River's unrestricted grants-in-aid was reduced by 4.2% for fiscal year 2012, due to a reduction in ADM. Without a significant recovery in the economy as a whole, it is anticipated that the district will continue to realize declining enrollment. Additionally, as of this date, there is nothing to indicate the State will continue to fund regular transportation. For Black River the loss of the regular transportation reimbursement is approximately \$600,000 annually, or nearly 9% of our total unrestricted State aid. Lastly, based on information received from the Medina County Auditor, fiscal year 2012 -2013 State budget cuts, by county, reveal that education will make up almost 60% of the total cuts. For these reasons, the Treasurer believes to project an average annual decrease of 3.0% in State funding is reasonable.

Another item which the performance audit addresses is projected salaries. The five-year-forecast which the State analyzed in conducting their audit assumes a 1% step increase each year in years 2014, 2015 and 2016. The State Auditors believe this to be an overly optimistic assumption. However, while the actual salary increases for our employees may be higher, if the district is unable to pass an operating levy during the time period of this forecast, it will be necessary to make further staffing reductions. Consequently, the net effect will be very little change in total salaries, as indicated in the forecast.

The budgeting process and final document have been provided based on what the Board of Education had wanted in the past. The Treasurer will work to provide a more comprehensive budget document in the future.

Staffing

The average salary comparison schedule in the performance audit references Black River Local School District as being slightly higher than the peer districts, but when compared to Medina County Schools, Black River Local School District is lower. Specifically, the audit cited Black River Local School District teachers as being comparatively lower than Medina County Schools. Black River Local School District’s administrative salaries are also impacted by the Medina County School Districts. Though not cited in the performance audit Black River administrative salaries are significantly lower than all other Medina County Schools even with additional pension benefits.

Healthcare

Healthcare and dental insurance premiums were also an area where the State Auditors felt Black River could reduce costs. Table 2-3 of the Performance Audit Report compares our state premium rates to the average, as reported by SERB. However, the district historically receives at least a one month premium holiday each year, and in some years, multiple holidays are realized. Following are the net effective insurance premium rates:

| | | FY 2011 | FY 2012 | One Premium Holiday Projected |
|----------------|--|----------|------------|-------------------------------|
| Single Medical | | \$392.81 | \$504.11 | |
| Family Medical | | \$954.26 | \$1,224.64 | |
| | | | | |
| Single Dental | | \$49.89 | \$64.04 | |
| Family Dental | | \$123.04 | \$157.91 | |

As you can see, our net effective premiums, especially in fiscal year 2011, are more competitive with the SERB rates than Table 2-3 indicates. While being a member of the Stark County Council of Governments for our health insurance coverage does restrict the district’s ability to negotiate coverage limits, deductibles, etc., it provides us with protection from devastating claims and with group purchasing power.

Black River Local School District’s Board of Education successfully negotiated a higher employee contribution for both the certified and classified staff in June of 2011. Both certified and classified staffs are paying double what they paid for their healthcare and dental insurance in previous years. The suggestion by the auditor has been duly noted regarding negotiations.

Special Education

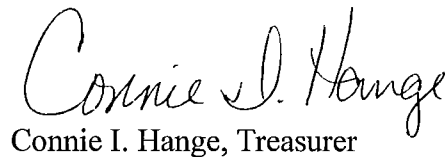
The auditors used the 2009-10 school year, which was an unusual year for Black River in the area of Special Education. The district experienced a large number of special education students who opted to delay graduation and stay in school for another year, which is an additional cost to the district. The district also experienced a large number of students needing placements outside of the district in the 2009-10 school year. We currently do not have large numbers of special education students opting to delay graduation or being placed outside the district. Each year is different. The district does strive to correctly place students in the best possible educational setting based on the student's needs. The district does take advantage of applying for excess cost for special education students with the Ohio Department of Education when ever possible to assist with the additional financial burden placed on Black River for special education.

The district has had a change in our EMIS personnel, which should help with the coding issues highlighted in this section of the audit.

In conclusion, Black River would again like to thank the State of Ohio Auditors Office for this opportunity. We found the audit valuable. The two major items addressed in the audit dealing with savings located in the "Summary of Financial Implications" are both negotiated items and will be addressed accordingly when the contracts are up for renegotiation. As far as purchasing a computerized maintenance system, the district is currently in "Fiscal Watch" with the Ohio Department of Education Finance Division, at this point our money would be better spent on students. Black River will continue to analyze the information gained through the audit process for continued fiscal improvement. Thank you for your time and efforts on behalf of the students and taxpayers of our community.

Sincerely,


Janice Wyckoff, Superintendent


Connie I. Hange, Treasurer