



Dave Yost • Auditor of State





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To the Residents and elected officials of the Greene County Educational Service Center:

Based on a request from the Greene County Educational Service Center (GCESC), a performance audit of GCESC was initiated on May 10, 2011. The functional areas assessed in the performance audit were GCESC's administrative and general operating costs, and administrative risks related to its relationship with its member school districts. These areas were selected because they are important components of the Educational Service Center operations.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of the operations of GCESC. While the recommendations contained in the audit report are resources intended to assist in management decision-making, the ESC is also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

This report includes the project history; an overview of GCESC and its operations; the scope, objectives and methodology of the performance audit; and findings and recommendations. This report has been provided to GCESC and its contents discussed with the appropriate officials and Educational Service Center management. GCESC has been encouraged to use the results of the performance audit as a resource in further improving its overall operations and service delivery.

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

February 14, 2012

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# Background

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## *Project History*

On May 10, 2011, at the request of the Greene County Educational Service Center (the Educational Service Center or GCESC), the Auditor of State's Office (AOS) initiated a performance audit on its cost of overhead and its overhead recovery process. It also requested a survey of its member districts to ascertain their perceptions and concerns.

## *Educational Service Center Overview*

The Greene County Educational Service Center is located in Yellow Springs, Ohio and provides services to Cedar Cliff, Greeneview, and Sugarcreek Local School districts, Yellow Springs Exempted Village School District, and Beavercreek, Fairborn and Xenia City School districts. The ESC operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. Board members must be residents of Cedar Cliff, Greeneview, or Sugarcreek Local School districts. GCESC has 193 employees: 45 teachers, 46 special education therapists, 40 educational aides, 25 mental health therapists, 24 administrative employees, and 13 administrative support staff. These employees provide direct and indirect services to the local, exempted village, and city school districts within Greene County.

According to Ohio Revised Code (ORC) 3312.01, in addition to statutory duties, an educational service center may enter into agreements with school districts for the provision of services which may include: assisting in improving student performance, providing services to enable a school to operate more efficiently, providing professional development for teachers and administrators, assisting in the recruitment and retention of teachers and administrators, and any other educational, administrative, or operational services.

The Educational Service Center provides support and direct educational services to its member districts and those that it serves within the County under contract (e.g. city school districts). These services strengthen the member districts in areas they would otherwise be unable to finance or staff independently. GCESC provides over 85 different services, programs, and events in categories spanning administrative/supervisory assistance, alcohol/drug prevention programs, special programs/activities, pupil personnel resources, curriculum and assessment services, staff development programs, and special education services. Special education is the most prevalent service used by member districts and those under contract as school districts are required by law to serve students that have individual education plans (IEP) detailing the students' special education needs. Most of the districts in the service area rely on GCESC to provide special education services, particularly those that are highly specialized that may only serve a few students. Finally, GCESC staff supplement a member district's staffing when needed.

### *Financial History and Outlook*

In fiscal year (FY) 2010-11, GCESC's net assets increased approximately \$250,000 compared to a \$38,000 increase in the prior year. The major increase in revenue, \$461,000, came from grants and contributions. Conversely, expenses for instruction increased \$376,000. Overall revenue increased \$501,000 over the prior year while expenses increased \$289,000.

One of the major financial concerns of GCESC is the loss of State funding to its member districts and the impact this may have on GCESC's contracts with those districts. In order to meet federal requirements, the member districts must fund mandatory special education services and this may result in the districts reducing expenditures in general and niche programs. Although the member districts are likely continue to purchase mandated special education services, GCESC is concerned they may stop purchasing optional services such as those that comprise the Alternative Education programs. The Alternative Education programs account for about \$765,000 of the Educational Service Center's annual revenues and expenses.

## **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 the Greene County Educational Service Center 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.

This performance audit was conducted between May 2011 and September 2011 and data was drawn from fiscal years 2009-10 and 2010-11. To complete this report, the auditors gathered data, conducted interviews with individuals associated with the administration of this ESC and the peer ESCs and the member districts, and reviewed and assessed available information. The performance audit process involved information sharing with GCESC, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, status meetings were held throughout the engagement to inform GCESC of key issues, and share proposed recommendations to improve or enhance operations. Input from the ESC was solicited and considered when assessing the selected areas and framing recommendations. Finally, GCESC provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on GCESC's comments.

The educational service centers of Clark, Fairfield, and Portage counties were selected to provide benchmark comparisons for the areas assessed in the performance audit. These ESCs were selected based upon demographic and operational data. Furthermore, external organizations and sources were used to provide comparative information and benchmarks.

The Auditor of State and staff express their appreciation to GCESC and the peer ESCs for their cooperation and assistance throughout this audit.

## **Noteworthy Accomplishments**

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

**Prompt Financial Reporting:** GCESC published its audited financial statements for FY 2009-10 on July 30, 2010 and for FY 2010-11 on August 18, 2011. Both audited financial reports used generally accepted accounting practices. According to the Governmental Accounting Standards Board, smaller independent schools normally issue their reports in approximately five months after year-end. GCESC issued its last two reports, on average, less than 45 days from year-end. Prompt reporting of year-end financial information provides decision-makers with more timely information upon which to base current and future strategy.

## 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
R1 Eliminate 1 FTE clerical position.	\$35,000
R2 Evaluate and revise contracting methodology to control personnel costs.	\$270,000
<b>Total Cost Savings from Performance Audit Recommendations:</b>	<b>\$305,000</b>



## **Audit Objectives**

The following detailed audit objectives were used to conduct the performance audit of the Greene County Educational Service Center. The objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. In some instances, objectives were modified based on actions taken by the Educational Service Center to address high-risk environments indentified by the auditors during the course of their work.

### **Administrative and General Operating Costs:**

- What is the general operational overhead cost efficiency for administrators, support staff, facilities, and supplies?
- What is the operational cost efficiency of GCESC compared to the peer entities?
- What is the administrative workload for management and office/clerical staff of GCESC?
- What is the personnel cost efficiency of GCESC compared to the peer entities?
- What are the spans of control for GCESC?
- What is the overhead cost recovery of GCESC compared to the peer entities?

### **Administrative Risks:**

- What are areas of concern of the member districts?

# Administrative and General Operating Costs

## Background

At the client's request and with the varied nature of services offered by ESCs across Ohio (see ESC Overview for a sample of the programs provided by GCESC), this audit focuses on general overhead costs of operations and administration. Overhead costs of operations and administration include support services costs for instructional staff except classroom support, Board of Education costs, administration costs (Superintendent), fiscal services costs, business, operation and maintenance of plant services costs, pupil transportation costs and central support costs. Throughout this section of the report, the full-time equivalent (FTE) unit of measure is used. This measure differs from number of employees as 1 FTE may represent more than one employee.

### *General Operational Cost Efficiencies*

**Table 1** illustrates GCESC's total expenditure per full-time equivalent (FTE) employee compared to the peers.

**Table 1: Expenditure per FTE**

	GCESC	% Of Total	Peer Average	% Of Total	Difference	% Difference
<b>Instruction - Non-Overhead<sup>1</sup></b>	\$58,977	81.70%	\$39,095	64.32%	\$19,881	50.85%
<b>Support- Overhead<sup>2</sup></b>	\$13,211	18.30%	\$21,685	35.68%	(\$8,474)	(39.08%)
<b>Total</b>	<b>\$72,188</b>	<b>100%</b>	<b>\$60,780</b>	<b>100%</b>	<b>\$11,408</b>	<b>18.77%</b>
<b>FTE Total</b>	183		130		53	41.00%

**Source:** Ohio Department of Education EMIS, EFM reports and peer financial reports.

<sup>1</sup> **Instructional** (or Non-Overhead) Expenditures consists of: Regular Instruction, Support Services – Pupil, Instructional Staff – Classroom Support, Classroom Support – Special Education Aides

<sup>2</sup> **Overhead Expenditures** consists of: Support Services – Instructional Staff (except for Instructional Staff – Classroom Support and Classroom Support – Special Education Aides), Support Services – Board of Education, Support Services – Administration, Fiscal Services, Support Services – Business, Operation and Maintenance of Plant Services, Support Services – Pupil Transportation, Support Services – Central

**Table 1** shows that GCESC is higher in total expenditures than the peer average. Therefore, its costs of operations on a per-employee basis are higher overall. GCESC's Instruction-Non-overhead expenditure per FTE was significantly— 50.85 percent—higher than the peer average, illustrating that the ESC spends a greater portion of its resources for instructional activities and employees than for support functions. Its total overhead expenditure per FTE was significantly lower—39.08 percent—than the peer average, reiterating its allocation of resources toward instructional activities. Overall, GCESC spent 81.70 percent of its resources on instruction while the peers spent 64.32 percent.

In order for GCESC to complete a more detailed study of its resource allocation by function, it should obtain FTE information from EMIS reports available from ODE for itself and the peers. To determine expenditures, GCESC should use information from inclusion reports, also available from the ODE. After consulting with the comparison ESCs about program composition and staffing patterns, it should divide expenditures by FTEs based on function code. Due to the varied nature of program deployment within ESCs, auditors could not determine functional resource allocation with a sufficiently reasonable degree of certainty and, therefore, did not include the information in this report.

### *Administrative Workload and Staffing*

Administrative staffing ratios compare the number of staff per administrator. **Table 2** illustrates administrative staffing ratios for GCESC and the peers. In general, organizations that minimize overhead tend to have fewer personnel serving as administrators, managers, and supervisors.

**Table 2: Administrative Staffing Ratios**

	GCESC	Peer Average	Difference
<b>FTE Employees (excluding administrators)</b>	143.76	102.26	41.50
<b>Employees per Administrator</b>	6.03	5.89	0.14
<b>Change in Overhead FTEs Needed to Equal Peer Average</b>			<b>0.58</b>

Source: Ohio Department of Education EMIS Reports

This comparison shows that GCESC effectively allocates its management resources when compared to its peers. Based on the ratios shown in **Table 2**, Greene County ESC has 0.6 fewer FTE's administrators than the peers.

### *Office/Clerical Staffing*

**Table 3** shows the FTE total office/clerical staff for GCESC compared to the peer average. In general, organizations that minimize overhead and support services tend to have fewer personnel in this category or function.

**Table 3: Office/Clerical Staffing Analysis**

	GCESC	Peer Average	Difference
<b>Total FTE Office/Clerical Staff</b>	9.41	6.88	2.53
<b>FTE Employee (excluding office/clerical)</b>	158.18	114.84	43.34
<b>Employees per Office/Clerical Staff</b>	<b>16.81</b>	<b>18.25</b>	(1.44)
<b>Change in FTEs Office/Clerical Staff Needed to Equal Peer Average</b>			<b>(0.74)</b>
<b>Recommended Reduction</b>			<b>1.0</b>

Source: Ohio Department of Education EMIS Reports

**Table 3** shows that GCESC has fewer employees per office/clerical staff compared to the peer average. On a ratio basis, however, GCESC employs more personnel in this category. In order to reach the peer average in office/clerical staffing, it would need to reduce office/clerical staffing by approximately 1 FTE. (See **R1**.)

### Personnel Cost Efficiency

**Table 4** compares the salaries and wages, and all employee benefits for the client and the peer ESC districts disaggregated into two categories: instructional and overhead. The methodology used in developing **Table 4** consists of dividing disaggregated salaries and wages, and benefits by the FTEs within the categories of *instructional* and *overhead*.

**Table 4: Total Personnel Expenditures (FTE) - Comparison**

	GCESC	Peer Average	FTE Difference	% Difference
<b>Salaries and Wages</b>				
-Instructional	\$51,894	\$51,027	\$867.57	1.70%
-Overhead	<b>\$47,735</b>	<b>\$40,050</b>	<b>\$7,685.06</b>	<b>19.19%</b>
<b>Employee Benefits</b>				
-Instructional	\$17,931	\$13,972	\$3,958.77	28.33%
-Overhead	<b>\$12,675</b>	<b>\$12,352</b>	<b>\$323.23</b>	<b>2.62%</b>
<b>FTE Total</b>	183.37	130.05		
<b>FTE Overhead</b>	<b>33.50</b>	<b>39.59</b>		
<b>FTE Non-Overhead</b>	149.87	90.46		

**Source:** Ohio Department of Education and EMIS Reports

**Note:** Instructional salaries and wages were not included in the scope of this audit.

**Instructional** – Non Overhead includes Curriculum Specialist, Tutor/Small Group Instructor, Suppl. Service Teacher (Spec. Ed.), Teacher Mentor/Evaluator, Teacher, Other Professional, Psychologist, Social Work, Physical Therapist, Speech and Language Therapist, Occupational Therapist, Educational Interpreter, Occupational Therapy Assistant(OTA Physical Therapy Assistant(PTA), Adapted Physical Education Therapist, and Other Professional – Other, Teaching Aide

**Overhead** includes Administrative Assistant, Superintendent, Supervising/Managing/Directing, Treasurer, Coordinator, Education Administrative Specialist, Director, Supervisor, Other Official/Administrative, Accounting, Computer Operating, Practical Nursing, Instructional Paraprofessional, Other Technical, Bookkeeping, Clerical, Messenger, Parent Mentor, Parent Coordinator, Other Office/Clerical, Attendance Officer, and Custodian.

On a per FTE basis, FY 2009-2010 overhead salary and wage expenditures were \$7,685.06 (19.19 percent) higher than the peer average and overhead employee benefit expenditures were \$323.23 (2.62 percent) higher than the peer average. Additionally, per FTE instructional salary and wage expenditures were \$867.57 (1.7 percent) higher than the peer average and instructional benefit expenditures were \$3,958.77 (or 28.33 percent) higher than the peer average. Since the salaries and benefits are higher than the peers for both overhead and instructional employees, GCESC may be able to reduce its total costs by targeting functional areas that are higher than the peers or streamlining its employee contract process.(See **R.2.**)

### Spans of Control

The span of control is the number of employees (direct reports) reporting to a supervisor. **Table 5** provides the total number of direct reports (listed as a head count) for each administrative position code (position codes 100-199) for GCESC and the peer average from Clark County ESC, Fairfield County ESC, and Portage County ESC. GCESC has 171 direct reports while the peer average is 122.67, a difference of about 48 direct reports.

**Table 5: Total Direct Reports by Position Code**

	GCESC	Peer Average	Difference
101 - Administrative Assistant	0	2.33	(2.33)
109 - Superintendent	19	20.67	(1.67)
110 - Supervisor/Manager	11	40.67	(29.67)
112 - Treasurer	2	1.67	0.33
113 - Coordinator	0	1	(1.00)
114 - Education Administrative Specialist	20	0	20.00
115 - Director	24	8.67	15.33
120 - ESC Supervisor	95	47.67	47.33
199 - Other Official Administrative	0	0	0.00
<b>Direct Reports per All Administrators</b>	<b>171</b>	<b>122.67</b>	<b>-</b>
<b>Total Adjustment Needed to Equal Peer Average</b>			<b>48.33</b>

Source: Ohio Department of Education and EMIS Reports—adjusted for consistency.

Organization-wide, GCESC has a higher number of direct reports than the peer average. However, **Table 5** does not prorate direct reports on a per-administrative position basis.

**Table 6** shows the average number of direct reports in each administrative position code for each ESC based only on those employees that have direct reports. The table shows for each supervisor listed in each administrative position code, how many direct reports that supervisor directly manages on average.

**Table 6: Average Direct Reports per Supervisor**

	GCESC	Peer Average	Difference
101 - Administrative Assistant	0	2.33	(2.33)
109 - Superintendent	19	20.67	(1.67)
110 - Supervisor/Manager	11	20.78	(9.78)
112 - Treasurer	2	1.67	0.33
113 - Coordinator	0	1	(1.00)
114 - Education Administrative Specialist	10	0	10.00
115 - Director	24	8.67	15.33
120 - ESC Supervisor	15.83	17.38	(1.55)
199 - Other Official Administrative	0	0	0.00
<b>Average Direct Reports per Supervisor</b>	<b>14.25</b>	<b>16.00</b>	<b>-</b>
<b>Total Adjustment Needed to Equal Peer Average</b>			<b>(1.75)</b>

Source: Ohio Department of Education and EMIS Reports as adjusted for consistency.

GCESC has an average of 14.25 direct reports per supervisor compared to the peer average of 16 direct reports per supervisor, or 1.75 direct reports per supervisor less than the peer average. GCESC also has a lower number of subordinates per supervisor than the peer average, resulting in a lower span of control. However, the information does not directly correlate to the size of the ESC, the variety of programs offered by each ESC, the percentage of time each supervisor spends supervising, or to an average workload comparison. Only administrative employees that are responsible for direct reports are included in **Table 6**.

Direct report information provided by Clark County ESC, Fairfield County ESC, and Portage

County ESC was not tested or verified by AOS. *Performance Audit Span of Control* (Kansas City Auditor, April 2002) noted that the Kansas City Manager should review and justify cases where a supervisor had two or fewer direct reports or more than 12 direct reports. *Span of Control Increases Overall* (City Auditor of Seattle, September 2005) noted that the span of control in the city ranged from 4.5 to 9.7 direct reports per supervisor. *Window on State Government* (Texas Comptroller of Public Accounts, January 2003) states that the recommended span of control nationwide for the public and private sector is one manager for every eleven employees. GCESC has a higher span of control than suggested in recent literature and similar organizations but lower than the peers do. If faced with future financial constraints, this is an area GCESC could examine for reductions in supervisory personnel.

### *Total Overhead Recovery*

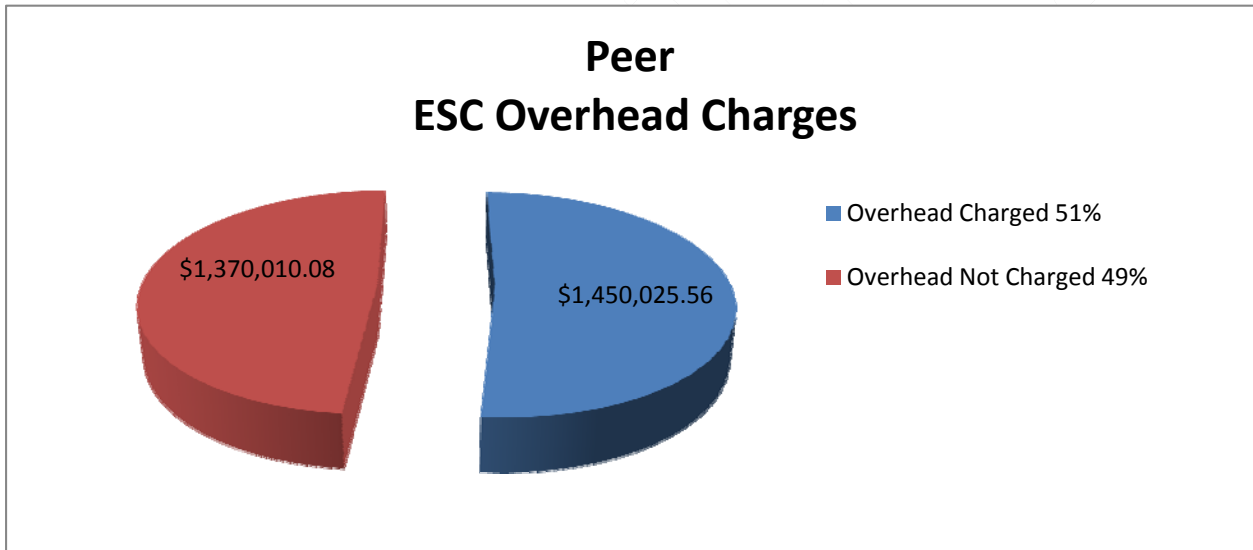
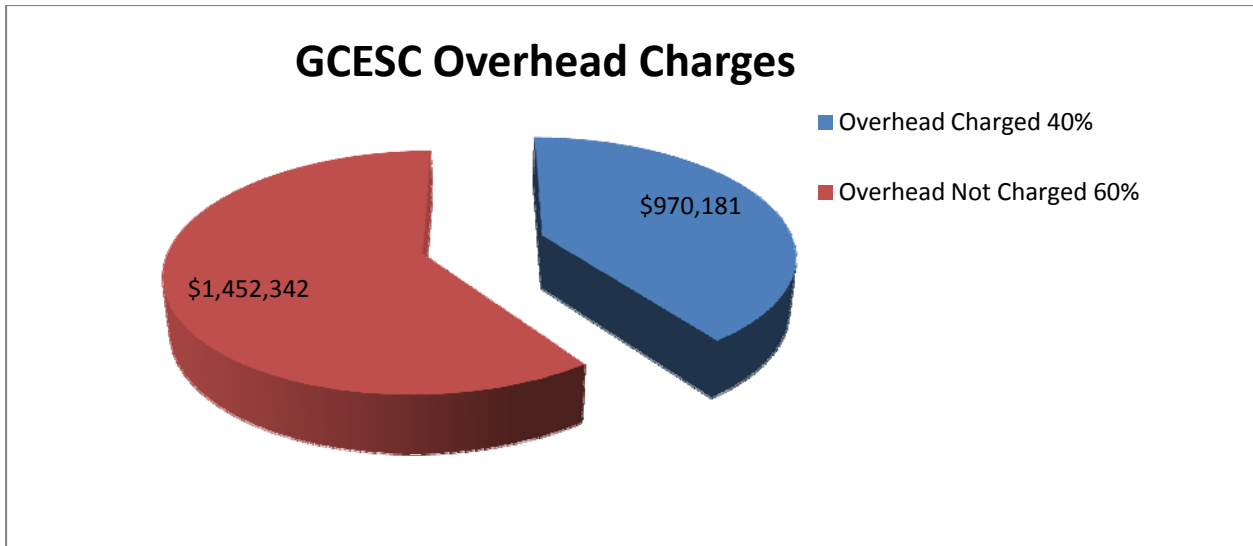
**Table 7** compares the amount of overhead expenditures recovered from Greene County ESC member districts compared to the amount the peers recover based on overhead expenses and FTEs.

**Table 7: Total Overhead Recovery Comparison**

	GCESC	Peer Average	Difference	% Difference
<b>Support Service - Overhead</b>	\$2,422,524	\$2,820,035	(\$397,511)	(14.1%)
<b>Total Overhead per FTE</b>	\$13,211	\$21,684	(\$8,473)	(39.08%)
<b>Admin Charges to District</b>	\$602,990	\$156,259	\$446,731	285.89%
<b>Amount of ESC Settlement</b>	\$367,192	\$1,293,766	\$926,575	(71.62%)
<b>Total Overhead Recovered</b>	\$970,181	\$1,450,025	(\$479,844)	(33.09%)
<b>Total Overhead Recovered Per FTE</b>	\$5,291	\$11,149	(\$5,858)	(52.55%)
<b>Total Percentage of Overhead Recovered</b>	40.05%	51.42%	(11.37%)	(22.11%)
<b>FTE Total</b>	183.37	130.05	53.32	41.02%

**Source:** Client and Peer ESCs.

Based on overhead expenditures, the ESC spends 14.1 percent less on overhead than the peers but it recovers from the member districts and State ESC settlements 33.09 percent less than the peers. On an FTE basis, total overhead and overhead recovered are 39.08 percent and 52.55 percent lower than the peers respectively. Finally, the percentage of overhead recovered from the member districts of the ESC is 22.1 percent less than that of the peers. Although none of the peers charge the member districts full cost recovery for overhead, Greene County ESC is recovering less of its overhead in comparison to the peers. Therefore, the ESC is not charging its member districts full cost recovery for its overhead in percentage charged or in the absolute dollar amount. The following charts illustrate this.



Based on current reductions in the State budget, GCESC is likely to encounter reduced revenues in future periods and may need to reduce overhead costs or increase the amount of overhead recovered from its member districts.

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## Recommendations

### **R1 Eliminate 1 FTE clerical position.**

The ESC should consider reducing its clerical staffing to a level more comparable to the peers. **Table 3** indicates that GCESC could reduce its clerical staff by at least 0.74 FTEs and still be comparable to the peers in workload. GCESC employs one office/clerical staff per 16.81 employees, while the peer ESCs employ one office/clerical staff per 18.25 employees. GCESC could achieve this reduction in personnel by combining the position of courier and office/clerical staff.

By reducing clerical staff, GCESC can lower the cost of overhead that it needs to recover. It could reduce its overhead salary and benefit costs by approximately \$35,000 if it were to reduce its clerical staffing by 1 FTE.

*Financial Implication:* Eliminating 1 clerical FTE would save GCESC \$35,000 in salary and benefits.

### **R2 Evaluate and revise the employee contracting methodology to control and reduce the costs of personnel to GCESC.**

GCESC should review the employment contracts of current employees and analyze the total cost of compensation relative to like organizations. Additionally, it should solicit member districts for feedback regarding ESC employees working in the districts. These evaluations should be considered when determining the status of personnel. Furthermore, the ESC should review the market availability for all positions and determine if it is compensating its employees at a level commensurate with current market rates for comparable positions. Finally, it should develop hiring practices that enhance its competitiveness and cost effectiveness.

**Table 4** shows that, on an overhead per FTE basis, FY 2009-2010 overhead salary and wage expenditures were \$7,685 higher than the peer average and overhead employee benefits expenditures were \$323 higher than the peer average. Additionally, instructional salaries and wages were \$867 higher than the peer average and instructional employee benefits were \$3,959 higher than the peers. Combining salaries and benefits, the overhead compensation was \$8,008 higher than the peers and the instructional compensation was \$4,826 higher than the peers on a per FTE basis.

*Maintaining the Public Trust While Making Tough Choices* (Governing, January 5, 2011) states that during salary negotiations elected officials and government executives should consider the following:

1. Determine the job requirements and experience needed to successfully perform them.
2. Examine market conditions to learn what comparable public-sector executives earn. One best practice would be to gather information from pre-determined, comparable benchmark local governments or public sector agencies.



3. Evaluate the individual's qualifications in context. Understand the services provided by the local government along with the nature of the current issues in the organization and in the community, and then compare these with the individual's expertise and proven ability to resolve those issues.
4. Identify the local government's current financial position, its ability to pay and the existing policies toward compensation relative to market conditions.
5. Factor in the individual's credentials, experience, and expertise.
6. Consider unique and special circumstances, such as additional compensation in areas where the cost of living is high and the governing body wants the executive to reside within the community. Other such circumstances may include difficult recruitment markets or the particularly challenging needs of the public agency.
7. Seek legal advice as needed and appropriate when negotiating and finalizing terms and conditions."

Combined salaries (excluding the Treasurer and Superintendent) and benefits (total compensation) for overhead personnel in GCESC exceeds the peers by \$1,239 per FTE. The combined salary and benefits of instructional employees exceeds the peers by \$4,826 per FTE. The major cost driver creating the difference in compensation is GCESC's insurance costs, which are \$2,959 per FTE higher than the peer average.

Paying more in total compensation increases overhead and instructional costs for GCESC, a cost that it then must recover from its member districts. GCESC could modify its salary structure, revise insurance plan benefits, or increase its employee contribution to insurance plans. (The government-sector average employee contribution is 15 percent for healthcare.) If GCESC reduces its cost for employment contracts to save half (\$1,475) of the difference between it and the peers, it could save approximately \$270,000.

*Financial Implication:* Reducing the total cost of compensation for employees could save GCESC \$270,000.

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# Administrative Risks

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## Background

GCESC asked AOS to conduct a survey via face-to-face interviews of its seven member districts to capture the opinions and concerns of these districts related to ESC service levels and costs. To accomplish this, AOS conducted an open-ended confidential survey with the superintendents of the member districts. The survey included the following topics:

1. What ESC services does your district use on a regular basis?
2. Are these services for programs that your district is unable to sustain on its own?
3. How does your district determine which services of GCESC to use? Does your district evaluate the services provided by other ESCs and/or does it share resources with other districts? How did your district communicate its evaluation with the ESC?
4. What is the quality and availability of the services provided by GCESC? What areas of services would your district like to see improved? What areas of services would your district like GCESC to expand?
5. What new services should GCESC provide?
6. Has your district's budget been a factor in the type or the amount of services purchased from GCESC? Has your district's budget caused an increase or decline in the purchase of ESC services?
7. What other factors does your district use in deciding the types of services contracted with GCESC?
8. Has the cost per unit of service from GCESC contributed to the increase or the decline of contracted services?
9. What is the communication process between GCESC and your district?

Member districts noted that they use ESC services for administrators, special needs coordinators, psychologists and curriculum coordinators, special needs programs, occupational and physical therapy, preschool, and social workers. The districts also use GCESC's academy, learning center and camp. The following highlight the comments and concerns expressed to auditors during the interview process and should provide GCESC with discussion points for future planning and management decisions.

- **Strategy:** One district commented that there appears to be a lack of entrepreneurial spirit in the leadership of GCESC and it is concerned that GCESC may not survive for more

than two years. It noted that the administrative fees seem high and yet the fees can apparently be negotiated. The district also commented that there does not appear to be a long-term strategic plan. Several districts mentioned that a merger of ESCs would be beneficial if costs to the districts could be reduced.

- **Communication with Member Districts:** While GCESC held a forum to determine the needs of the districts, participants in the interviews noted that GCESC did not seem to understand the intent of the forum. As one respondent put it, communication appears to be open but unproductive. Districts suggested that there should be transparency in the charges of GCESC, and acknowledged that GCESC is willing to discuss business and communicate about costs. Finally, one respondent suggested that GCESC meet with new superintendents and treasurers to discuss the dynamics of the ESC and breakdown of costs.
- **General Programs:** As finances constrict, some districts noted they are considering reducing the services they purchase. Other districts mentioned that they are discussing pooling interests to create a program like the learning academy and bypass the use of GCESC. One district stated that as the budget continues to tighten, services procured from GCESC would be reduced. Another district mentioned that because of budget cuts, it could not contract for more ESC services. It noted that there is a difference in the service levels provided by GCESC and what it can afford. One district in particular stated that it has pulled some services from GCESC because it could provide the services at a lower cost in-house. One district specified that it would benefit if GCESC would offer services for its severely multi-handicapped students. Another district noted that GCESC should regularly survey its member districts to assess the quality of its services.
- **ESC Administrative Support:** In the area of reliance on ESC programs, one district noted that it relies on GCESC because it does not have the administrative staff needed to coordinate its programs and the ESC support is essential. Another district noted that it cannot sustain an in-house learning center and therefore, relies on GCESC for this service.
- **ESC Personnel/Substitutes:** GCESC operates a substitute service. Some districts stated that they were pleased with the service though others indicated they were not. One district noted that its community expects high quality teachers and GCESC does not provide these through its substitute service, except in the area of mental health units. Another district commented that there appears to be a systematic shifting of problematic employees from one district to another by GCESC. A participant suggested GCESC broaden its hiring pool to lower its cost and increase the quality of its services. Another district stated that the quality of teachers in GCESC appears to be high.
- **Business/Support Services:** One interviewee noted that GCESC could provide transportation services county-wide as well as shuttle services and that sharing transportation software could benefit the districts. In addition, one participant recommended GCESC explore the possibility of providing facility and food services. Another participant suggested that GCESC could provide the lead in developing a

consistent school calendar.

Based on the comments and feedback received from member districts, GCESC should consider using the feedback as a component of developing and implementing a long-term strategic plan. This would help ensure it addresses member district concerns and prepares for future conditions.

DRAFT

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# Client Response

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The letter that follows is the Greene County Educational Service Center's official response to the performance audit. Throughout the audit process, staff met with ESC officials to ensure substantial agreement on the factual information presented in the report. When GCESC disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

The AOS recommended seven steps to use in employee-contracting methodology to generate cost savings for the ESC, although the ESC's response focuses on employee contributions to health insurance. However, savings could come from any combination of the following; increasing the portion the employee pays for healthcare, adjusting the health care plan, adjustment of pay rates, or adjusting the mix of employees to be more similar to the peers and the ESC can begin implementation of this recommendation at any time.



Dear Mr. Pyers;

The Greene County Educational Service Center would like to thank the entire performance audit team for their time and effort towards the completion of our Performance Audit. We have appreciated your thorough review, your willingness to communicate with us throughout the process, and the recommendations which were provided. We also feel your findings have helped to substantiate what we had been sharing with our service Districts prior to this audit.

Once the final report is released we plan on holding sharing and discussion meetings with the Superintendents, Treasurers, and interested Board members from our Districts. From the ESC perspective there appears to be a few perceptions which were shared by Districts and reported in the audit which we will discuss as they are not correct when compared to past practices of the Greene County ESC.

There were two recommendations included in this audit to which we would like to respond:

**R1: Eliminate 1 FTE clerical position.**

Prior to this report some Districts felt we had excess clerical staff in our mental health program offices. However, it had been the ESC's position that some of the duties being carried out by the clerical staff were in lieu of having more expensive administrative staff as utilized by other mental health agencies.

Despite this, the ESC has realized the importance of finding ways to reduce overhead expenses and has already taken the following steps prior to the completion of this audit to accomplish this goal. These steps have been taken through re-assignments and attrition of staff.

Re-assignment of clerical staff to reduce overtime costs within the Treasurer's office - savings to the ESC of \$30,181 in salary and benefits

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Resignation of assistant maintenance/courier position, re-assignment of maintenance duties, and hiring of part time staff for courier services - savings to the ESC of \$56,736 in salary and benefits.

Resignation of mental health assistant and re-assignment of secretarial duties - savings to the mental health program of approximately \$33,848 in salary and benefits.

The total savings of these actions in relation to the classified/ clerical positions is \$120,765.

**R2: Evaluate and revise the employee contracting methodology to control and reduce the costs of personnel to GCESC.**

We question the methodology for calculating that the Greene County ESC is \$323 higher per "peer FTE" in benefit costs for non instructional staff and \$3,959 higher per "peer FTE" in benefits for instructional staff.

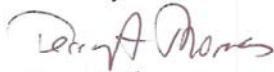
Although the Audit was performed using FY10 information, for FY12 it is known that the Greene County ESC, per enrolled staff member, is only \$243.35 higher in family health insurance costs and \$48.42 higher in single health insurance costs than the peer average on an annual basis. On a monthly basis this calculates to \$20.00 more a month for family and \$4.00 more a month for single.

It is also known that the ESC has 82% of total staff enrolled in Health Insurance while Clark ESC has only 74.25% of total staff enrolled, Fairfield ESC only 72.75% enrolled. Enrollment information from Portage ESC was not available at the time of this response. It is also known that of those enrolled in Health Insurance, the Greene ESC has a higher percentage enrolled in Family than compared to the average of the peers.

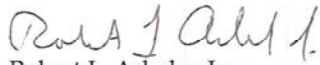
By dividing overall benefit costs by total district FTE, in this instance, gives a higher per FTE cost than if overall benefit costs were divided by just the FTE of those using the benefit.

Also, AOS has calculated that the Greene County ESC could save \$270,000 annually if the employees were required to pick up a larger share of the premiums. It is known that full time Greene County ESC Employees currently pay 10% of the premium. It has been calculated that to reach this level of savings, the Board would have to increase the employee share to 26.5%.

Sincerely,



Terry A. Thomas  
Superintendent



Robert L. Arledge Jr.  
Treasurer