



Dave Yost • Auditor of State



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To the residents, Board members, administration, and stakeholders of the Perkins Local School District,

At the request of the Ohio Department of Education, the Auditor of State's Ohio Performance Team conducted a performance audit of the Perkins Local School District to provide an independent assessment of operations. Functional areas selected for operational review were identified with input from District management and were selected due to strategic and financial importance to the District. Where warranted, and supported by detailed analysis, this performance audit report contains recommendations to enhance the District's overall efficiency and effectiveness. This report has been provided to the District and its contents have been discussed with the appropriate elected officials and District management.

The District has been encouraged to use the management information and recommendations contained in the performance audit report. However, the District is also encouraged to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report. The Auditor of State has developed additional resources to help Ohio governments share ideas and practical approaches to improve accountability, efficiency, and effectiveness.

SkinnyOhio.org: This website, accessible at <http://www.skinnyohio.org/>, is a resource for smarter streamlined government. Included are links to previous performance audit reports, information on leading practice approaches, news on recent shared services examples, the Shared Services Idea Center, and other useful resources such as the Local Government Toolkit. The Shared Services Idea Center is a searchable database that allows users to quickly sort through shared services examples across the State. The Local Government Toolkit provides templates, checklists, sample agreements, and other resources that will help local governments more efficiently develop and implement their own strategies to achieve more accountable, efficient, and effective government.

This performance audit report can be accessed online through the Auditor of State's website at <http://www.ohioauditor.gov> and choosing the "Search" option.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 11, 2014

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Executive Summary

Project History

The Ohio Department of Education (ODE) asked the Auditor of State’s Ohio Performance Team to conduct a performance audit of the Perkins Local School District (PLSD or the District) to improve the efficiency and effectiveness of operations, and address concerns that declining revenues are creating operating deficits that will eventually deplete cash reserves.

Performance Audit Overview

The United States Government Accountability Office develops and promulgates Government Auditing Standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are commonly referred to as generally accepted government auditing standards (GAGAS).

OPT conducted this performance audit in accordance with GAGAS. These standards require that OPT plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. OPT believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit provides objective analysis to assist management and those charged with governance and oversight 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.

Methodology and Benchmarks

Government Auditing Standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives.

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.

Data was drawn from FY 2010-11, FY 2011-12, and FY 2012-13, where possible. To complete this report, auditors conducted interviews with District personnel, and reviewed and assessed information from Perkins Local School District, peer school districts, and other relevant sources. The performance audit process involved significant information sharing with PLSD, 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 for improving or enhancing operations. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. Finally, PLSD 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 and supporting documentation.

AOS used four school districts as peers for benchmarking purposes: Coventry Local School District (Summit County), Norton City School District (Summit County), Streetsboro City School District (Portage County), and Vermilion Local School District (Erie County). These districts were selected based upon demographic and operational data as well as input from the District. External organizations and sources were also used to provide comparative information and benchmarks. They include the Ohio Administrative Code (OAC), 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), Panell Martin, and the National Center for Education Statistics (NCES).

Financial Overview

Table 1 shows PLSD's total revenues, total expenditures, results of operations, beginning and ending cash balances, and ending fund balance as projected in the District's October 2013 five-year forecast compared to its May 2013 forecast. This information is an important measure of the financial health of the District and serves as the basis for identification of conditions leading to fiscal status designation by AOS and ODE.

Table 1: PLSD Financial Condition Overview

May 2013 Forecast					
	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
Total Revenues and Other Financing Source	\$22,991,837	\$20,466,942	\$20,979,659	\$21,485,838	\$21,965,703
Total Expenditure and Other Financing Uses	\$26,698,723	\$23,087,275	\$23,397,993	\$24,058,517	\$24,912,755
Results of Operations	(\$3,706,886)	(\$2,620,333)	(\$2,418,334)	(\$2,572,679)	(\$2,947,052)
Beginning Cash Balance	\$4,060,225	\$353,339	(\$2,266,994)	(\$4,685,328)	(\$7,258,007)
Ending Cash Balance	\$353,339	(\$2,266,994)	(\$4,685,328)	(\$7,258,007)	(\$10,205,059)
Outstanding Encumbrances	\$319,440	\$322,634	\$325,860	\$320,000	\$320,000
Fund Balance June 30 for Certification	\$33,899	(\$2,589,628)	(\$5,011,188)	(\$7,578,007)	(\$10,525,059)
October 2013 Forecast					
	Forecast FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
Total Revenues and Other Financing Source	\$21,305,115	\$21,422,555	\$21,736,166	\$22,035,334	\$22,358,482
Total Expenditure and Other Financing Uses	\$21,787,673	\$22,478,727	\$23,540,265	\$24,675,284	\$25,693,109
Results of Operations	(\$482,558)	(\$1,056,172)	(\$1,804,099)	(\$2,639,950)	(\$3,334,627)
Beginning Cash Balance	\$506,288	\$23,730	(\$1,032,442)	(\$2,836,541)	(\$5,476,491)
Ending Cash Balance	\$23,730	(\$1,032,442)	(\$2,836,541)	(\$5,476,491)	(\$8,811,118)
Outstanding Encumbrances	\$322,634	\$325,860	\$320,000	\$320,000	\$0
Fund Balance June 30 for Certification	(\$298,904)	(\$1,358,302)	(\$3,156,541)	(\$5,796,491)	(\$8,811,118)

Source: PLSD's May 2013 and October 2013 five-year forecasts as submitted to ODE.

As shown in **Table 1**, PLSD's October 2013 five-year forecast projected a FY 2013-14 fund deficit of \$298,904. Furthermore, the forecast projected that as expenditures continue to outpace revenues, the District would face a growing deficit projected to reach \$8,811,118 by FY 2017-18.

Subsequent to the November ballot issue and during final review, the PLSD Board agreed that the permanent improvement inside millage should be re-classified to the general fund for operating expense. The General Fund will receive its first payment with the February 2014 1st half tax settlement in the amount of \$700,000. Until then, the District is pursuing short term lending to meet payroll and daily operating expenses.

Summary of Recommendations

The performance audit identifies potential cost savings of approximately \$1,462,800 annually, representing 6.7 percent of the total FY 2013-14 expenditures forecasted by the District. The following table summarizes those performance audit recommendations and, when applicable, the associated financial implications.

Summary of Recommendations

Recommendations	Savings
R1 Reduce staffing	\$1,293,700
R2 Renegotiate contract language	\$150,000
R3 Realign salaries	N/A
R4 Manage fuel purchasing	N/A
R6 Charge all food service costs to the Food Service Fund	\$22,100
R7 Update the strategic plan	N/A
One-time Costs	
R5 Purchase bus routing software	(\$13,000)¹
Annual Maintenance Costs	
R5 Purchase bus routing software	(\$3,000)
Annual Cost Savings from Performance Audit Recommendations (less one-time costs)	\$1,462,800¹

Source: AOS recommendations

¹ One-time costs or savings are not included in the “recurring” Annual Cost Savings but are accounted for in the “Financial Forecast with Performance Audit Recommendations” table below.

The following table shows the District’s ending fund balances as projected in the October 2013 five-year forecast. Included are annual savings identified in the performance audit and the estimated impact that implementation of the recommendations will have on the ending fund balances.

Financial Forecast with Performance Audit Recommendations

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Oct 2013 Ending Fund Balance	(\$298,904)	(\$1,358,302)	(\$3,156,541)	(\$5,796,491)	(\$8,811,118)
Performance Audit Total Cost Savings	\$0	\$1,449,800 ¹	\$2,912,600	\$4,362,400	\$5,812,200
Revised Ending Fund Balance	(\$298,904)	\$91,498	(\$243,941)	(\$1,434,091)	(\$2,998,918)

Source: PLSD October 2013 five-year forecast and AOS recommendations

Note: Although the District should seek to implement recommendations as soon as practical, there may be a reasonable delay in doing so. As a result, cost savings have been applied to FY 2014-15 through FY 2017-18 only.

¹ Reduced for the One-time purchase of software (\$1,462,800 - \$13,000 = \$1,449,800)

Two of the seven recommendations require contract negotiations with the District’s collective bargaining units. Implementation of the audit recommendations will greatly depend on the outcome of the negotiations. However, even with decreased expenditures and the implementation of the audit recommendations, the District will not eliminate deficits in the last three years of the forecasted period.

Background

Financial Systems

The District has had deficits since FY 2010-11 and is projected to have a negative cash balance of \$298,904 by the end of FY 2013-14. In 2012, the District moved inside millage from the general fund to the permanent improvement fund. In 2013, a five-year renewal of a 2-mil permanent improvement levy was passed by voters and is expected to bring in \$750,000 annually for building repairs, technology and the replacement of buses, vans, and other capital equipment. In addition to the renewal levy, the District asked for a new 6.73 mil, 10-year emergency levy in August 2013, which was defeated. The District placed the same 6.73 mil, 10-year emergency levy on the ballot for the November 2013 election, which was defeated.

Eliminating future deficits can be accomplished by decreasing expenditures, increasing revenue, or a combination of both. Management control over operating decisions can directly affect expenditures. Consequently, PLSD's operations and related expenses were examined by OPT in an effort to identify areas of potential cost savings for the District.

Revenue, on the other hand, is not directly controlled by school districts, but instead by federal and State laws and regulations and support from local residents. ODE's Local Tax Effort Index is a tool designed to reflect the extent of effort the residents of a school district make in supporting public elementary and secondary education while considering the residents' ability to pay.¹ In FY 2011-12, PLSD's Local Tax Effort Index was 0.88. The average of the peer school districts used in the audit was 1.13. If PLSD's revenue increases, the District may be able to eliminate deficits in the last three years of the forecasted period and/or avoid some potential reductions to services.

Tables 2 and 3 use the Expenditure Flow Model (EFM) classifications as defined by the Ohio Department of Education. "The purpose of the Expenditure Flow Model (EFM) is to categorize and report expenses related to the education of students. Because districts often handle funds unrelated to the instruction of students, not all expenditures accounted for by a school district are included in the model." *Reporting School District Revenue and Spending Per Pupil* (Ohio Department of Education, 2013). Audited financial statements of revenues, expenditures and fund balances of the District and the peers are available at <http://www.ohioauditor.gov/auditsearch/search.aspx>.

Table 2 shows the District's historical expenditures from FY 2008-09 through FY 2011-12. During this period, the District's enrollment increased by an average of 2.1 percent per year.

¹ A value of 1 indicates average local tax support, while values below 1 or above 1 reflect below average or above average support, respectively.

Table 2: Historical Expenditures

	FY 2008-09	FY 2009-10	% Diff	FY 2010-11	% Diff	FY 2011-12	% Diff	Avg. % Diff
FTE Students¹	2,247	2,315	3.0%	2,345	1.3%	2,393	2.0%	2.1%
Admin	\$2,166,425	\$2,224,328	2.7%	\$2,368,443	6.5%	2,519,836	6.4%	5.2%
Building Operations	4,209,519	4,068,086	(3.4%)	4,166,398	2.4%	3,982,431	(4.4%)	(1.8%)
Staff Support	1,561,584	647,590	(58.5%)	1,185,383	83.0%	1,386,458	17.0%	13.8%
Pupil Support	1,970,165	1,964,392	(0.3%)	2,015,690	2.6%	2,180,982	8.2%	3.5%
Instructional	12,492,674	13,517,141	8.2%	13,706,631	1.4%	13,517,815	(1.4%)	2.7%
Total Expenditures	\$22,400,367	\$22,421,537	0.1%	\$23,442,545	4.6%	\$23,587,522	0.6%	1.8%

Source: Ohio Department of Education

¹ FTE students reflects the number of students used by ODE to calculate expenditures per pupil.

As shown in **Table 2**, total expenditures increased by an average of 1.8 percent per year from FY 2008-09 to FY 2011-12. During this time the District's enrollment also increased by an average of 2.1 percent per year, which was largely due to the District accepting students from open enrollment. To help control costs during this time, the District decreased the number of teachers by 21 FTE, which increased the student-teacher ratios. The District then chose to increase the number of teacher aides to help alleviate the increased class sizes, leading to increases in administrative costs, staff and pupil support, and instructional expenditures from FY 2008-09 to FY 2011-12.

Table 3 shows the District's expenditures per pupil (EPP) compared to the peer average EPP for FY 2011-12.

Table 3: Expenditure per Pupil (EPP) - Peer Comparison

	PLSD EPP	Peer Avg. EPP	EPP Difference	Percent Difference
FTE Students¹	2,393	2,244	149	6.6%
Administrative	\$1,053	\$1,081	(\$28)	(2.6%)
Building Operations	\$1,664	\$1,777	(\$113)	(6.4%)
Staff Support	\$579	\$374	\$206	55.1%
Pupil Support	\$911	\$1,000	(\$89)	(8.9%)
Instructional	\$5,649	\$5,249	\$400	7.6%
Total Expenditure per Pupil (EPP)	\$9,856	\$9,481	\$376	4.0%

Source: Ohio Department of Education

¹ FTE students reflects the number of students used by ODE to calculate expenditures per pupil.

As shown in **Table 3**, the District spent 4.0 percent more in FY 2011-12 than the peer average on a per pupil basis. The District spent 55.1 percent more than the peer average in staff support, which was partially due to increased enrollment and the hiring of teacher aides. The District spent less than the peer average in pupil support, building operations, and administrative costs.

Human Resources

The District's human resource function is led by the Superintendent and Treasurer. All decisions regarding human resource issues, including employee benefits, staffing, and wages, are made collaboratively between the Superintendent and the Treasurer. The PLSD Board of Education has the final say as to whether or not proposed actions and policies are implemented by the District.

The PLSD EMIS Coordinator is responsible for generating and maintaining the District's EMIS reports. She works cooperatively with the District's Information Technology Center (ITC) as well as other local school districts whose students attend PLSD through open enrollment to reconcile EMIS reports. All completed EMIS information is submitted to the Treasurer for review before being sent to ODE.

The District placed a levy on the ballot in August 2013. The levy did not pass, and the District subsequently implemented a pay to play sports program as a way to help control costs. The salary of the athletic director is now funded through student fees. Furthermore, as a result of the levy failure, the District reduced staffing by 23 FTE positions in August 2013. Of the 23 FTE positions that were eliminated for FY 2013-14, 17 were General Education Teaching positions. The data used in **Table 4** below incorporates those staffing reductions.

Staffing

The Superintendent and the Treasurer work collectively to make personnel and staffing decisions with input from administrative and management staff. The current organizational structure is designed to ensure the District is staffed to meet the educational needs of its students while considering its fiscal constraints.

Table 4 compares the District's staffing ratios following the most recent round of staff cuts to the peer average.

Table 4: Staffing Comparison Summary (in FTEs)

	PLSD			Peer Average Staff/1,000 Students	Difference /1,000 Students
	FTE Staff	Percent of Total Staff	FTE/1,000 Students		
Administrative	14.73	5.71%	6.37	6.84	(0.47)
Office/Clerical	9.35	3.62%	4.05	7.73	(3.68)
General Education Teachers	107.57	41.68%	46.65	45.40	1.25
All Other Teachers	23.07	8.94%	10.00	11.29	(1.29)
Educational Service Personnel (ESP)	14.50	5.62%	6.29	6.80	(0.51)
Educational Support	4.00	1.55%	1.73	2.78	(1.05)
Other Certificated	0.00	0.00%	0.00	1.41	(1.41)
Non-Certificated Classroom Support	18.96	7.35%	8.22	9.57	(1.35)
<i>Sub-Total</i>	192.18	74.47%	83.31	91.82	(8.51)
Operations	57.89	22.43%	25.11	26.52	(1.41)
All Other Staff	8.00	3.10%	3.46	3.51	(0.05)
Total Staff	258.07	100.00%	111.88	121.85	(9.97)

Source: PLSD and peer EMIS data

Note: See **Appendix B** for clarification of position codes in Tables 4 and 5

As illustrated in **Table 4**, total District staffing was 9.97 per 1,000 students below the peer average after 23 FTE positions were eliminated in August 2013. The District was higher in General Education Teachers compared to the peer average. Due to the District projected deficit of approximately \$1,360,000 for FY 2014-15 and \$3,160,000 for FY 2015-16, staffing levels were compared to the requirements detailed under OAC 3301-35-05. The AOS determined that the District currently employs more General Education and Educational Service Personnel staff than required under OAC guidelines. (See **R1** for recommendation.)

Salaries

Table 5 compares PLSD's salary costs per student educated with the peer average for FY 2011-12. Beginning wage rates, years of service, negotiated salary schedules, and education or skill level attained impact salary rates.

Table 5: Salaries per Student Educated Comparison

	PLSD	Peer Ave.	% Diff.
Administrative	\$426	\$500	(14.8%)
Office/Clerical	\$140	\$257	(45.5%)
General Education Teachers	\$2,764	\$2,483	11.3%
All Other Teachers	\$580	\$584	(0.7%)
Education Service Personnel (ESP)	\$314	\$401	(21.7%)
Educational Support	\$115	\$118	(2.5%)
Non-Certificated Classroom Support	\$191	\$171	11.7%
Operations	\$571	\$663	(13.9%)
All Other Staff	\$116	\$144	(19.4%)

Source: PLSD and peer EMIS data

Table 5 illustrates that in FY 2011-12 the District had two areas, General Education Teachers and Non-Certificated Classroom Support, whose employees earned more per student educated than the peer average. An additional analysis showed that District certified and classified employees earn more over the course of a 30 year career than the peers. (See **R3** for recommendation.)

Collective Bargaining Agreements

PLSD operates under two collective bargaining agreements. The certificated staff is represented by the Perkins Education Association (PEA). This bargaining unit includes teachers and other licensed staff in nonsupervisory roles. The classified staff is represented by the Ohio Association of Public School Employees (OAPSE). The superintendent, principals, special education/federal funds coordinator, other administrative personnel as defined by ORC §4117, and substitute teachers are excluded from the PEA bargaining unit. The transportation supervisor, substitutes, temporary and part-time employees, non-certificated employees employed in the superintendent's or treasurer's offices, and any other confidential, supervisory or management-level employees as defined by ORC §4117 are excluded from the OAPSE bargaining unit.

Facilities

In FY 2012-13, Perkins LSD operated four school buildings. Perkins High School housed grades 9-12, Briar Middle School housed grades 6-8, Meadowlawn Elementary housed grades 3-5, and Furry Elementary housed grades K-2. According to an Ohio School Facilities Commission (OSFC) assessment that was conducted in 2013, the District enrolled 2,400 children in grades Kindergarten-12 in FY 2012-13, an increase of 268 students since FY 2007-08. The District indicated that this increase in enrollment was likely due to the District's move to an open enrollment policy.

The total utilization rate at the District was 80 percent. *Defining Capacity* (DeJong 1999) uses a benchmark utilization rate of 85 percent to define a building as being fully utilized. Even though the District was slightly below the benchmark, closing one school and moving the entire student population to the remaining school buildings would raise utilization rates to levels well above the benchmark. Potential overcrowding would result from closing one of the school buildings; therefore, building closures will not be recommended in this audit.

Table 6 shows the expenditures per square foot that are required for the upkeep of the facilities at the District in FY 2011-12. This table presents expenditures that are directly attributed to maintaining the buildings and grounds, to include the personnel costs associated with the employees identified in Table 7 below.

Table 6: Facilities Expenditures per Square Foot Comparison

	Client	Peer Average	Difference	% Difference
Square Feet Maintained	331,745	354,893	(23,148)	(6.5%)
Salaries and Wages	\$2.43	\$2.38	\$0.05	1.8%
Employee Benefits	\$1.02	\$0.97	\$0.05	5.3%
Purchased Services (Excluding Utilities)	\$0.71	\$0.63	\$0.08	11.1%
Utilities	\$0.90	\$1.00	(0.10)	(11.0%)
Supplies & Materials	\$0.48	\$0.37	\$0.11	24.0%
Capital Outlay	\$0.17	\$0.05	\$0.12	69.8%
Other Objects	\$0.04	\$0.00	\$0.04	99.4%
Total Expenditures per Square Foot	\$5.75	\$5.40	\$0.35	6.1%

Source: Ohio Department of Education

As shown in **Table 6**, the District spent more per square foot than the peer average in the areas of salaries, employee benefits, purchased services, supplies and materials, and other objects. Total expenditures exceeded the peer average by 6.1 percent. Employee salaries are assessed in more detail in the Human Resources section of the report (see **R3**). During the course of the audit AOS obtained a copy of the Ohio School Facilities Commission (OSFC) Assessment Report that was performed in October of 2008. The OSFC assessment indicated that PLSD buildings were dated and in need of multiple repairs. The age of the District's facilities contributed to the District's higher purchased service costs due to the need for repairs. The District stated that the capital outlay expenditures are higher due to improvements to the football stadium. Furthermore, the District began working with an architectural firm to develop preliminary drawings for the construction of a new High School and Middle School. The District also indicated that the supplies and materials costs were higher in FY 2012-13 due to the renovations that were made to the football stadium. AOS verified with the District, as well as other local media outlets in the Sandusky area, that the renovations to the football stadium occurred. AOS noted that the "other objects" expenditures for the District were higher than the peers, but determined this amount was immaterial to the audit and did not warrant further analysis.

Staffing and Organizational Structure:

The District employs twelve custodians, two maintenance employees, three temporary grounds employees and one part time Facilities Director. The custodians, grounds employees, and maintenance employees report to the Facilities Director. The Facilities Director also oversees the Transportation Department.

Table 7 below shows the workload ratios at the District in comparison to the AS&U and NCES industry benchmarks.

Table 7: B&G Department Staffing Need

District Staffing	
Total FTE Grounds Staffing	1.48
Total FTE Maintenance Staffing	2.55
Total FTE Custodian Staffing	12.04
Total FY13 Building & Grounds FTE Staffing	16.07
District Statistics	
Acreage Maintained	95.0
Square Footage Maintained	426,733
Square Footage Cleaned	385,452
Staffing Benchmarks and District Need	
<i>AS&U Five Year Avg. Acres per FTE Groundskeeper</i>	40.2
Calculated FTE Groundskeeping Need	2.36
<i>AS&U Five Year Avg. Sq. Ft. per FTE Maintenance</i>	94,872
Calculated FTE Maintenance Need	4.50
<i>NCES Level 3 Cleaning Median Square Footage per FTE</i>	29,500
Calculated FTE Custodian Need	13.07
Total B&G Staffing Need	19.93
Current Staffing Compared to Calculated Need	
Grounds Staffing Difference	(0.88)
Maintenance Staffing Difference	(1.95)
Custodian Staffing Difference	(1.03)
Total B&G Staffing Difference	(3.86)

Source: PLSD, NCES, and AS&U Magazine

The District's B&G staff clean and maintain more square footage and acreage than the NCES and AS&U benchmarks. As a result, staffing levels will not be assessed further in this audit.

Transportation

The District encompassed 49 square miles and transported 1,419 pupils in FY 2011-12. Of these bus riders, 1,390 were regular riders and 29 were special needs students. The students were transported using a two-tier routing system in which high school and middle students were picked up first and elementary school students were picked up afterwards. The District ran 16 regular buses and one special needs bus each day, traveling a total of 1,193 miles per day in FY 2011-12. Additionally, District buses traveled a total of 42,365 non-routine miles in FY 2011-12. The District had a total of 17 active buses and five spare buses.

Table 8 shows the key operating statistics for the District's transportation program.

Table 8: Key Statistics and Operating Ratios

FY 2011-12	PLSD	Peer Average	% Difference vs Peers
Key Statistics			
Square Miles	49	26.3	86.3%
ODE Enrollment	2,437	2,303.3	5.8%
Total Students Transported (All Types)	1,419	1,275.7	11.2%
Total Yellow Bus Riders (Type I)	1,419	1,261.7	12.5%
Active Buses	17	22.7	(25.1%)
Annual Routine Miles	214,740	212,880	0.9%
Annual Non-routine miles	42,365	28,329	49.5%
Operating Ratios			
Daily Miles Per Rider	0.84	0.94	(10.6%)
Enrollment Per Square Mile	49.7	88.5	(43.8%)
Public Riders as % of Enrollment	52.9%	52.3%	1.1%
Regular Riders per Regular Bus	86.9	58.7	48.0%
Routine Miles per Active Bus	12,631.8	9,427.5	34.0%

Source: Ohio Department of Education Transportation Reports

Table 8 shows that the District is 22.7 square miles, or 86 percent larger, than the peer average while its buses traveled 1 percent more routine miles in FY 2011-12. The District had 25 percent fewer active buses relative to the peer average. The District's enrollment per square mile of 49.7 students was significantly lower than the peer average of 88.5, which indicates a less densely populated area.

Organizational Structure

The Transportation Department has a Director who reports to the Superintendent. The Transportation Director is also the Facilities Director for the District. The Transportation Director compiles ridership and mileage data for T-1 reports using the driver count sheets. When completed, the T-1 reports are submitted to the Treasurer and Superintendent for verification before being submitted to ODE. The Treasurer is responsible for the completion of the T-2 expense reports, as well as the approval of any purchases made by the Transportation Department.

Food Service

The Food Service Department at PLSD consisted of 21 employees in FY 2012-13, including four head managers, four assistant managers, twelve cook/cashiers, and a director. The staff prepares and serves breakfast and lunch in each of the District's instructional facilities. The District utilizes cooperatives and consortiums to secure lower prices for its food. PLSD achieved a 74 percent participation rate, compared to a 57 percent participation rate for the peers in FY 2012-13.

Financial Data

The Food Service Fund is an enterprise fund, meaning it is intended to be financially self-sufficient by relying on charges and reimbursements to cover the costs of operation. **Table 9** presents PLSD's Food Service Fund revenue, expenditures, and other financial activities for FY 2009-10 through FY 2011-12.

Table 9: Food Service Fund

	FY 2009-10	FY 2010-11	% Change	FY 2011-12	% Change	3 Year Change
Beginning Fund Balance	\$287,061	\$274,990	(4.2%)	\$292,864	6.5%	2.0%
Total Revenue	\$923,230	\$966,634	4.7%	\$992,251	2.7%	7.5%
Total Expenditures¹	\$935,300	\$948,760	1.4%	\$875,170	(7.8%)	(6.4%)
Operating Income	(\$12,071)	\$17,874	248.1%	\$117,081	555.0%	1070.0%
Ending Fund Balance	\$274,990	\$292,864	6.5%	\$409,945	40.0%	49.1%

Source: PLSD financial reports

¹Includes encumbrances

Table 9 indicates that the Food Service Fund had operating surpluses in FY 2010-11 and FY 2011-12. Revenues have increased by 7.5 percent while expenditures decreased by 6.4 percent. Due to the surpluses, the District is able to avoid making General Fund transfers to the Food Service Fund. It is important to note that the Food Service Fund is not charged for utilities. Implementing a charge back system will affect the surpluses in coming years, yet should not lead to deficits (see **R6**). However, the Food Service Fund already pays for equipment and trash removal.

Industry leading practices, as established by the National Food Service Management Institute, set a production benchmark of 74 meals per labor hour. The District produced 78.2 meals per labor hour in FY 2012-13, exceeding the benchmark by 4.2 meals. The number of meals produced by the District should require 91 labor hours per day, according to the industry benchmark. The District exceeded this benchmark by 1.48 hours. As a result, no further analysis will be conducted.

Recommendations

R1 Reduce staffing

Due to its financial situation, the District should reduce its General Education staffing to state minimum standards, Educational Service Personnel to the state minimum standards, and Library Aides to peer levels. Before making the reductions, the District should review the potential impact it would have on the quality of education.

Financial Implication: Reducing General Education staff levels to state minimum standards would require the elimination of 22.5 FTE positions. By using the starting salary step for a teacher with a bachelor's degree (\$36,094 in FY 2012-13) and the 35 percent benefits to salary ratio at the District, a reduction of 22.5 FTEs would save the District approximately \$1,095,800 annually. Reducing Educational Service Personnel (ESP) to the state minimum requirements would result in the elimination of four FTE positions. Based on the salaries and benefits of the four least senior ESP personnel, a reduction of four FTEs would result in additional annual savings of \$149,000. Reducing Library Aide staffing levels to the peer average would require the elimination of 1.5 FTE positions. By using the salaries and benefits of the least senior library aides, a reduction of 1.5 FTEs would result in additional savings of approximately \$48,900 annually. **Total financial implication:** Assuming the elimination of 22.5 general education FTEs, 4.0 ESP FTEs, and 1.5 Library Aide FTEs, the District could save **\$1,293,700** annually in salaries and benefits.

In FY 2012-13 the District employed a total of 117 General Education teachers. In August 2013, the District eliminated 9.5 general education FTE positions, bringing the student to teacher ratio to 20:1. Although these reductions put the District in line with peer averages, due to the worsening financial situation, the District should consider reducing staffing levels in this area to the minimum ratios established by the Ohio Administrative Code. OAC §3301-35-05 mandates at least one FTE classroom teacher for every 25 regular education students on a District-wide basis. While it is not a common practice in Ohio to operate at or near State minimums, PLSD may need to make significant staffing reductions to address potential deficits if savings cannot be identified and achieved in other areas of operation. If the District determines that staffing reductions are necessary in order to function within its current operating budget, it should first consult with ODE to ensure it maintains compliance with State requirements.² If the financial condition continues to decline, these reductions may be necessary. However, the District should consider the potential impact to student achievement when it evaluates options to save money by reducing staffing levels to State minimum standards.

In FY 2012-13, PLSD employed 14.5 ESP FTEs. The ESP category includes k-8 art and music teachers, librarians, media specialists, social workers, visiting teachers, counselors, and nurses.

² The 22.5 FTEs is calculated using the regular student population reported in FY 2012-13. If the District determines that further staffing reductions are necessary it should work with ODE once the FY 2013-14 regular student population numbers are finalized to ensure that it continues to staff teachers within the State minimum requirements.

Due to the worsening financial situation, the District should consider reducing staffing levels in this area to the minimum ratios established by the Ohio Administrative Code. OAC §3301-35-05 mandates at least five FTE Educational Service Personnel for every 1,000 regular education students on a District-wide basis. The District could eliminate 4 FTE ESP positions and still meet this minimum standard.

In addition, the District could reduce Library Aide staffing to peer average levels. A reduction of 1.5 FTE Library Aide positions would align PLSD staffing levels with the peer average. If the District's financial condition continues to decline, further staffing reductions may be necessary.

R2 Renegotiate contract language

In future contract negotiations the District should renegotiate those items identified by AOS as costly. These provisions include paid holidays for classified staff, sick leave severance at retirement, paid vacation days, and compensation for Local Professional Development Committee members. If able to renegotiate these items to reflect peer practices or ORC standards, the District could realize significant future savings.

Financial Implication: Negotiating to make the identified provisions more consistent with peer practices or State standards would save the District approximately **\$150,000** per year.

In an analysis of PLSD's classified and certificated collective bargaining agreements (CBA), several provisions were determined to be more generous than the selected peer districts. In addition to the peer comparison, the provisions were compared to applicable provisions within the ORC.

Sick Leave Severance Payout: The District's certificated and classified contracts permit employees who are eligible for retirement to receive payment for unused sick leave. Classified employees are eligible for a maximum payout of 48 days while certificated employees are eligible for a maximum payout of 50 days. ORC §124.39 entitles public employees to a maximum pay out of 30 days at retirement. If the District had followed the ORC in providing severance in FY 2012-13, it could have saved a total of \$57,800.

Local Professional Development Committee (LPDC): As specified by ORC §3319.22 and OAC §3301-24, the LPDC reviews and approves individual professional development plans and activities. The District currently compensates employees who serve on the LPDC. The Treasurer indicated that those employees who are classified as administrators are not compensated for serving on the LPDC. In FY 2012-13 the District compensated four non-administrative employees approximately \$6,000. State law permits, but does not require, compensation for members. Due to its financial condition, the District should consider eliminating compensation for the LPDC.

Vacation Days: Over the course of a classified employee's thirty year career, he or she is entitled to a total of 555 vacation days. By comparison, the peer districts' classified employees are entitled to an average of 519 vacation days. Furthermore, based on the guidelines established under ORC §3319.084, a classified employee is entitled to a total of 460 vacation days over the

course of a thirty year career. If the District were to limit employee vacation leave to the requirements established under ORC §3319.084 it would realize annual savings of \$41,800.

Paid Holidays: According to ORC§3319.087, 11 and 12 month employees are entitled to a minimum of seven holidays while 9 and 10 month employees are entitled to six holidays. PLSD's 11 and 12-month classified employees receive 12 paid holidays. In addition, PLSD provides its 9 and 10-month classified employees with nine paid holidays per year. If the District were to reduce the number of paid holidays offered to classified employees to that required by the ORC, it could realize annual savings of \$44,300.

R3 Realign salaries

PLSD should continue the salary freeze on all classified employees until employee salaries align with peer averages. The District should also try to negotiate a salary freeze for employees covered by the certificated collective bargaining agreement until salaries align with the peer districts.

The District recently re-negotiated its classified collective bargaining agreement. All classified employees hired after July 1, 2013 are on a pay schedule that is lower than the hourly rates paid to staff hired before that date. In addition, classified employees agreed to a salary freeze for FY 2013-14 and FY 2014-15. While the hourly rates offered to future employees under the new collective bargaining agreement are significantly lower than the current hourly rates, it is important to note that the majority of classified employees are working under the former salary schedule. Subsequently, the District is currently paying a higher hourly rate over the course of a classified employee's thirty year career relative to the peer average, with the exception of bus drivers.

Specifically, clerical employees hired before July 1, 2013 are paid 27.2 percent more over the course of a thirty year career when compared to the peer average. Custodians are compensated 16.7 percent more over the course of a thirty year career when compared to the peer average. Finally, cafeteria employees are compensated 9.2 percent more over the course of a thirty year career relative to the peer average. As a result, the District should maintain the current salary freeze until current employee compensation is more comparable to the peer average.

A salary analysis compared the salaries of PLSD certificated employees to the peer average. The District compensates certificated employees with a Bachelor's degree 10.5 percent more than the peers over the course of a 30-year career. Certificated employees that possess a Master's degree earn 8 percent more than the peers over a comparable 30-year career. As a result, the District should consider implementing a salary freeze until compensation is more comparable to the peer average. If possible, the District should also negotiate a new salary schedule for future employees, similar to its classified agreement. Doing so would make conditions more equitable for both groups while controlling future salary costs.

R4 Manage fuel purchasing

The District participates in a fleet management program that contract for reduced fuel costs with independent fuel stations nationwide. Purchases are controlled via credit cards with detailed reports by vehicle and driver that are available online. The vendor has four different types of fuel card programs with different savings levels depending on the number of gallons purchased. The relationship with the vendor has been ongoing for several years and the District has not revisited it to determine if it is resulting in the greatest cost savings.

During the course of the audit, AOS identified processing fee overcharges from an individual fuel station. These charges are not allowed per contract with the fleet management company. The Treasurer contacted the fleet management company to determine if the charges are refundable. AOS identified the error through recalculation of fuel purchased and cost per gallon from detailed reports provided by the Treasurer. In the future, monthly reconciliations of the detailed transaction reports should be performed by the Treasurer's office.

During the course of the audit, AOS also compared transportation costs to the peer districts and found that PLSD's fuel cost per mile was \$0.61 versus \$0.53 for the peers, a difference of 15 percent. As a result, AOS compared the unit price of diesel fuel from the District's most recent fuel vendors to the Ohio Department of Administrative Services cooperative purchasing program (DAS) for bulk purchase. Districts using the DAS purchasing cooperative can expect to pay the daily wholesale rate per contract based on predetermined factors. Minimum purchases under this contract are 250 gallons and require bulk storage. The analysis showed that if Perkins LSD considered bulk purchase they could realize an annual savings of approximately \$5,200. In discussion, the Board and Treasurer agreed that this savings was not enough to offset the cost and liability of installing a fuel storage tank. Costs would include the fuel tank, determining site location, EPA compliance requirements, fuel dispensing and monitoring equipment and security.

There are other options available to the District if it chooses to not buy its fuel in bulk. Other options include identifying a local government with bulk purchase power and an existing bulk storage tank to share services or soliciting other fleet fuel management bids for comparison to the current vendor. The District should monitor fuel costs and periodically compare the daily cost to the DAS wholesale distribution cost.

R5 Purchase bus routing software

The District should consider purchasing bus routing software to maximize efficiencies, improve internal controls and reduce administrative work.

Financial implication: A local vendor of routing software projects that the initial start-up costs would be approximately **\$11,000-13,000** along with **\$3,000** for annual support and maintenance.

The Transportation Department has two part-time employees overseeing operations, including a Supervisor who oversees three departments and a secretary whose hours were reduced from 7.5 to 5.0 hours daily. The part time staff has limited time to manage the operation. Due to variances observed in the transportation data and driver count sheets, combined with the reductions in

staffing for the department, automating routing and data compilation should be considered to improve internal controls.

Bus routing software would help the District's transportation operation in several areas. First, it would allow the District to compare its current routes to what the software considers the most efficient routes feasible. Second, it would significantly reduce staff time spent on data entry for submission to ODE, tracking of students, making mid-year adjustments to routes, and other manual functions.

R6 Charge all food service costs to the Food Service Fund

The District should implement a chargeback policy to ensure that utilities and other related costs are appropriately billed to the Food Service Fund. Further, billing relevant costs to the Food Service Fund will allow the fund to remain fully self-sufficient while reducing the burden on the General Fund.

Financial Implication: By charging the Food Service Fund for a pro-rated portion of the utilities, the District could reduce General Fund expenditures by approximately **\$22,100**. The most recent financial audit showed the Food Service Fund had a \$108,103 surplus in FY 2011-12. The charge back would have reduced the surplus to \$86,103.

According to the District, the Food Service Fund is not billed for its portion of the cost of utilities. The District expended \$298,464 for utilities in FY 2011-12. The food service operation utilizes 24,057 square feet, or 7.4 percent, of the District's building space. Allocating utility and related costs based upon square footage suggests that the District could have billed its Food Service Fund approximately \$22,100 for utility services during FY 2011-12.

According to *Measuring the Cost of Government Services* (GFOA 2002), governments should calculate the full cost of the different services they provide. The full cost of a service encompasses all direct and indirect costs related to that service. Direct costs include the salaries, wages, and benefits of the employees while they are working on the delivery of the service, as well as materials and supplies, and other associated operating costs such as utilities, rent, training and travel. Billing relevant costs to the Food Service fund will allow the fund to accurately reflect its operating income.

R7 Update the strategic plan

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

Perkins Local School District created an interdisciplinary group of parents, community leaders, teachers, administrators and board members in 2006 (the Design Team) to plan collaboratively for the school's future. A questionnaire was developed and sent to each home in the District to obtain insight into issues important to residents. Goal-setting meetings were held to allow additional participation in the process. The Design Team created the District wide strategic

plan in 2008. The plan includes a mission statement, vision statement, six goals, and lists strategies for achieving the goals. An example of a goal statement is, "The District will maintain and develop a curriculum that provides support, options and appropriately high expectations."

Recommended Practices on the Establishment of Strategic Plans (GFOA, 2005) indicates that all governments should develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting, and establish logical links between spending amounts and goals. Steps in the strategic planning process include:

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

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

Although the District's plan includes some of the recommendations from GFOA, such as agreeing on a small number of goals and strategies to achieve them, it hasn't been updated to reflect the current environment in the District. Although implementation of a strategic plan cannot be directly linked to passage of levies, developing a plan with the participation of the community will create a shared understanding of the relevant constraints and challenges facing the District. The process will initiate a common plan for addressing those issues and for continuing the mission of providing efficient and effective educational services.

Appendix A: Scope and Objectives

Generally accepted government auditing standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. 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 consultation with the Department and the District, OPT identified the following scope areas for detailed review: financial management, human resources, facilities, transportation, and food service. Based on the agreed upon scope OPT developed objectives designed to identify improvements to economy, efficiency, and / or effectiveness. Objectives and scope areas assessed in this performance audit include:

- What is the District's financial state? Are there areas in which the District can maximize cost efficiency? What methods are used to communicate with key stakeholders?
- How do staffing levels at the District compare to the peer district average and State standards?
- How do the District's salary schedules for certificated and classified staff compare to the surrounding district average?
- Are there contractual provisions within the employee collective bargaining agreements that are costly to the District?
- Does the District's routing system optimize pupil transportation services?
- Is the District's approach to purchasing fuel and other supplies, such as parts for buses, effective for the District?
- Do building capacities and enrollment projections suggest that the District should change how it plans to use its buildings?
- Does the District employ appropriate staff to maintain its facilities and grounds?
- Is the District's Food Service Fund self-sufficient?

Appendix B: Staff Classification Descriptions

The following descriptions are for the position classifications used in Tables 4 and 5.

Staff Classification	Description of Staff Included in Classification
Administrative	Central office and building level administrators, directors and coordinators, as well as personnel responsible for the planning, management, evaluation, and operation of the District.
Office/Clerical	All 500 position codes except 505 Teacher Aides plus Administrative Assistants (101) and Attendance Officers (901).
Teachers	General Education teaching assignment. It does not include ESP Teachers.
All Other Teachers	Career-Technical Programs/Pathways, Gifted and Talented, Limited English Proficiency teaching assignment, Special Education, Supplemental Service Teachers, Preschool Special Education, Preschool Handicapped Itinerant.
Education Service Personnel	K-8 Art, Music, and P.E. Teachers, Counselors, Librarians, Registered Nurses, Social Workers, and Visiting Teachers per ORC 3317.023(A)(2).
Educational Support	Remedial Specialists and Tutors/Small Group Instructors.
Other Certificated	Curriculum Specialists, Audio-Visual Staff, Permanent Substitutes, Teacher Mentor/Evaluator, and Other Education Professionals.
Non-Certificated Classroom Support	Teaching Aides, Paraprofessional Instructors, and Attendants.
All Other Staff	Psychologists, Therapists, Speech and Language Therapists, Practical Nurses, etc. Library Aides, Computer Support Staff, and all other professional and technical staff.

Client Response

The letter that follows is the official response of PLSD to the performance audit. Throughout the audit process, the District was afforded the opportunity to provide input and feedback on the factual basis for the analyses. When the District disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report. In addition, the District was also asked to provide comments on the report itself.

Perkins Public Schools

Our mission: Perkins Schools...an exceptional education
in a safe, caring environment.



Jim Gunner, *Superintendent*

Lisa M. Crescimano, *Treasurer*

January 20, 2014

Auditor of State of Ohio
Mr. David Yost
88 East Broad Street, 5th Floor
Columbus, Ohio 43215

Dear Auditor Yost:

On behalf of the Perkins Local School District, we would like to thank the entire Performance Audit team for their time and effort in preparing the audit report for our district. The staff was thorough and professional during all phases of the performance audit. As expected, the audit confirmed much of what the district already knew about its local financial stability.

While having made difficult staffing decisions since the 2012-13 school year that have resulted in over \$4 million in reductions to the Perkins Local School District budget including the elimination of thirty (30) certificated positions, we recognize that without further revenue support from our local community your recommendation to reduce staffing even further to state minimum standards may be required. Such a reduction would drastically and negatively impact the quality of educational services provided to our students. Further reductions to state standards would necessitate the elimination of our Little Pirates program, all day kindergarten offerings would be reduced to half day, elimination of elementary guidance counselors, our already limited specials in the arts, music and physical education areas would need to be eliminated in grades K through 8, Foreign language instruction at the middle school would be eliminated and reduced to one language at our high school, and class sizes would need to be increased above their current levels at all grades. These further reductions would decimate the day-to-day education we provide for the students at Perkins, especially those who are most in need of intervention and support. Yet, unfortunately, these drastic further reductions may be needed without additional local support for our school district.

While you recommend negotiation of more favorable contract language in sick leave payout, LPDC stipends, vacation days, and paid holidays, you fail to recognize the significant changes negotiated over the past two contracts with both our certificated and classified staff; major concessions in salary (freezes for the past three years) and benefits (insurance changes that have saved the district millions) have been negotiated. To expect to solve the financial situation of the school district on repeated reductions in employee compensation and benefits is unrealistic in the long run. To attract quality employees to work for the district requires competitive wages and

benefits. If all areas of our contract were at the lowest state standards, employee recruitment would be difficult if not impossible. We will take your identified areas of our contract under consideration as we negotiate in the future, but believe we have done a remarkable job of controlling costs through our recent contract negotiations that is not reflected in your report.

The district recognizes the need to closely examine the transportation department for efficiencies. Recent changes to bus routes have enabled the reduction of two daily bus runs, but the lack of sidewalks in the community inhibits the district's ability to provide safe alternatives to bus transportation for all students. Current district initiatives are examining bus routing software and potential transportation sharing with other local government entities. We will continue to monitor this area for future cost savings.

The recommendation to bill a portion of the district utilities to our food service operation will be considered by the district administration, but must be balanced against the need for a food service operation that is self sufficient. Currently, our food service operation covers all costs for its operations besides this minimal annual utility billing. Given recent federal regulations on school food service operations, it is becoming increasingly difficult to offer attractive, healthy, food options that students will purchase and eat at school. The district must be careful not to add additional burdens onto an operational area that already struggles to exhibit a balanced budget.

As the district moves forward, a renewed district planning process will be considered to engage our community in the challenges faced by the school district. The Perkins Local Schools will continue to analyze the information gained through the audit process for the improvement of our district. We would like to thank you for the time and effort you gave to assist our district in these difficult financial times.

Sincerely,

A handwritten signature in blue ink, appearing to read "James P. Gunner".

James P. Gunner
Superintendent

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Dave Yost • Auditor of State

PERKINS LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 11, 2014**