



**Auditor of State  
Betty Montgomery**

# WARREN CITY SCHOOL DISTRICT PERFORMANCE AUDIT

JUNE 8, 2006



## Auditor of State Betty Montgomery

To the Residents and the Board of Education of the Warren City School District:

In 2005, officials of the Warren City School District Board of Education requested that the Auditor of State complete a performance audit of some aspects of the District's business operations. The Board of Education requested that the performance audit be conducted to provide a resource that could be used in its proactive approach to identify potential areas for improvement in District operations.

The performance audit contains assessments of the following areas: Purchasing, Facilities, Food Service and Risk Management. The information contained within the report is intended to assist the District in its efforts to improve service delivery and optimize operational efficiency and effectiveness. The District is also encouraged to continually monitor and assess its operations to identify additional areas for improvements.

An executive summary has been prepared which includes the project history, objectives, scope, and methodology of the performance audit. The executive summary also includes a summary of noteworthy accomplishments, recommendations, items for further study, and financial implications. This report has been provided to the Warren City School District and its contents have been discussed with members of the Board of Education, the Superintendent, the Treasurer, and the appropriate department management personnel. The District has been encouraged to use the results of the performance audit as a resource in improving its overall operations, service delivery, and financial stability.

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

Sincerely,

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
AUDITOR OF STATE

June 8, 2006



# Executive Summary

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## Project History

The Warren City School District (Warren CSD, WCSD or District) engaged the Auditor of State’s Office (AOS) to conduct a performance audit of the following business office areas:

- Purchasing,
- Facilities,
- Food Services, and
- Risk Management.

Consistent with the District’s commitment to its residents and students, WCSD has been proactive in approaching the Auditor of State to complete an independent assessment of these areas to identify efficient and effective practices, and to determine potential areas for improvements. The District is encouraged to continue to monitor and assess its operations to identify additional areas for improvements.

## Overview of the Warren City School District

Warren CSD is located in Trumbull County in northeastern Ohio. The District territory is 16.08 square miles, and encompasses the City of Warren, Warren Township, and a small portion of Howland Township. The population of the City of Warren is approximately 44,000 residents. The District is governed by a Board of Education (Board) made up of five members elected by District residents. The Board is responsible for hiring a superintendent to direct the District’s daily operations and a treasurer to oversee the District’s finances. During the course of this performance audit, the District replaced its Superintendent, Treasurer, and Executive Director of Business Operations (Business Manager).

The average daily membership (ADM) at WCSD for FY 2004-05 was 6,528 students. Approximately 50.3 percent of the District’s ADM was classified as being in poverty, which is much higher than the statewide average of 19 percent. The District’s FY 2004-05 attendance rate was 93.6 percent, similar to the statewide rate of 94.3 percent. According to the 2004-05 District Report Card, WCSD only met 3 of 23 performance standards and continues to be classified in “academic watch” as defined by the Ohio Department of Education. The performance index score increased from 75.8 in FY 2003-04 to 78.8 in FY 2004-05.

WCSD is in the midst of an Ohio School Facilities Commission (OSFC) building program estimated to cost approximately \$170 million. Since 2000, five elementary schools have been closed and the District is currently operating 14 schools (13 regular schools and 1 alternative school). When the building program is completed in 2009, the District will have 5 new regular schools: 4 schools housing grades K-8 and a high school for grades 9-12.

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

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Audit work was conducted between June 2005 and February 2006. The primary goal of this performance audit was to provide an independent assessment of certain business operations in an effort to improve service delivery, and optimize operational efficiency and effectiveness. The audit assessed various aspects of the following operations: purchasing, facilities, food services and risk management. Major assessments included the following:

- Purchasing policies and procedures;
- Custodial, maintenance, and food service staffing and operations, including comparisons of key expenditure and staffing ratios; and
- Premium costs and coverage levels for liability, property, and fleet insurances.

To complete this report, auditors gathered and assessed data from various operational areas, conducted interviews with District personnel, and evaluated requested information from the selected peer school districts and other applicable sources for comparison purposes. Barberton City School District, Hamilton City School District, and Zanesville City School District were selected as peers based upon reviews of demographic information, and input from District personnel. Information was also obtained from a variety of other sources, including the American School and University (AS&U), the National Center on Education Statistics (NCES), the Ohio Department of Education (ODE), the National School Lunch Program, the Ohio Association of School Business Officials (OASBO), the Government Finance Officers Association (GFOA), and the National Institute of Governmental Purchasing (NIGP).

The performance audit process involved information sharing with members of the Board, the Superintendent, Treasurer, Business Manager, and department heads, including preliminary drafts of findings and proposed recommendations. Furthermore, status meetings were held throughout the engagement to inform the District of preliminary findings, recommendations, and key issues impacting selected audit areas. Throughout the audit process, input from the District was solicited and considered when assessing the selected areas and framing recommendations. In addition, the District provided written comments in response to various recommendations which were taken into consideration in the reporting process.

The Auditor of State and staff express appreciation to the Warren City School District and the peer districts for their cooperation and assistance throughout this audit.

## **Noteworthy Accomplishments**

During the course of this performance audit, several noteworthy accomplishments or best practices were noted. These are outlined below.

### *Facilities*

- Warren CSD's square footage per maintenance FTE is the highest when compared to the peer districts and 30.5 percent higher than the peer average. Additionally, the District's square footage per maintenance FTE is 55.7 and 60.0 percent higher than the AS&U national median and similar-sized district median, respectively. When the new schools are in full operation, the square footage per maintenance FTE will decrease to 131,371, which is still higher than the peers and AS&U medians.

### *Food Service*

- WCSD's Food Service Department is operating efficiently and cost-effectively, enabling it to maintain a positive balance in the food service fund. As a result, the District does not have to subsidize food service operations from the General Fund. The District is spending much less per student and per meal served to operate its food service program, and its staffing levels are significantly lower when compared to the peers. In addition, the District actively pursues identification of eligible students for the free and reduced meal prices offered by the National School Lunch Program, enabling it to maintain the same meal prices since 2001. Furthermore, the meal prices are lower than the peers.

### *Risk Management*

- For liability and umbrella insurance, WCSD is obtaining similar coverage at a lower cost when compared to the peers. More specifically, WCSD's general liability and premium costs per student and per employee are low when compared to the peers, even though the District's coverage levels are similar to, and in some cases exceed, the peers.

## **Key Recommendations**

The performance audit contains a number of recommendations pertaining to Warren CSD operations. The following are the key recommendations from the report:

### *Purchasing*

- The Business Manager, with assistance from the Treasurer, should work with the Board to develop a comprehensive purchasing manual that explains the purchasing process from start to completion. Formal policies and procedures should be developed for the following areas and included in the manual:
  - Dollar thresholds, number of price quotes, and types of purchases that would be subject to competitive pricing;
  - Use and evaluation of Requests for Proposals (RFPs) and Requests for Qualifications (RFQs);
  - Approved and preferred suppliers, including the supplier selection and removal process;
  - Information required for monitoring supplier performance;
  - Use and restrictions for blanket purchase orders; and
  - Documentation required to enable reviews of compliance with policies and procedures (e.g., documentation of price quotations and monitoring of supplier performance).

Each operational unit should be provided with at least one copy of the purchasing manual, and the District should review key components of the manual with staff. This manual should be updated on an annual basis or when significant changes to policies and procedures occur. When the District fully implements an electronic purchasing process, it should include an explanation of the process in the purchasing manual. In addition to developing formal policies and procedures for RFPs and RFQs, the District should work with its Legal Counsel to develop appropriate RFP and RFQ templates and identify key items to include (e.g., terms, conditions, evaluation process, performance expectations and reporting requirements).

- WCSD should fully use the purchasing module of the USAS software and integrate it with the financial management module of USAS. Subsequently, staff should be provided training on how to use this module to its fullest capacity. When staff have been trained on the module, the Business Manager should work with the Treasurer to develop a pilot program using the purchasing module in USAS. This will help identify and address issues before using the electronic process District-wide. In addition, the Treasurer's office should approve the purchase orders and certify fund availability in a timely manner. As the District becomes accustomed to its internal electronic purchasing system, it should explore online purchasing with suppliers as a mechanism to expand competition and generate additional bids and price

quotes. Maximizing the use of the electronic purchasing system will enable the District to eliminate the Order Clerk position, and increase the overall efficiency and effectiveness of the purchasing cycle.

### *Facilities*

- WSCD should use data such as building square footage to determine and evaluate its staffing levels. Based on building square footage, the District could reduce at least 7.0 custodian FTEs. When the new schools are in full operation, the District could reduce at least an additional 2.0 custodian FTEs. However, the District should continually monitor custodial workload and target the NCEES standards, which would enable it to exceed peer district performance and operate at a higher level of efficiency. This would be particularly important if the District faces financial difficulties in the future.
- The District should consider discontinuing the current warehouse operation for all items, except food service commodities that require refrigeration, and begin the transition to a just-in-time delivery system. By doing so, the District could reduce at least one warehouse FTE, and convert the current warehouse building into a shipping and receiving area for deliveries that cannot be made directly to the District buildings. If the District decides to maintain one of the warehouse FTEs, it should first evaluate and determine specific duties that person would perform. Furthermore, the District should determine if its remaining inventory meets departmental needs and then distribute it to users, or sell it back to suppliers.
- WSCD administrators should establish formal policies and procedures outlining energy efficient practices that District staff should follow to help minimize energy costs. Training should be provided to educate staff about energy efficient techniques. In addition, the District should continue to participate in the Ohio Schools Council (OSC) purchasing program for electricity and consider participating in its natural gas purchasing program for the 2006-07 school year.

### *Risk Management*

- The Board and administration should work with Legal Counsel to revise District policy 8710 on property insurance. The policy should be expanded to include all other applicable insurance and should be consistent with the requirements of ORC § 3313.203. The District should obtain quotes from at least two different insurance agencies. Consistent with the job descriptions and Board policy 6320, the policy should state that the Business Manager is responsible for the procurement of all insurance coverage for the District, regardless of what fund is used to pay premiums. In addition, WSCD should develop a set of formal insurance specifications, by type of coverage, to ensure its coverage levels are in line with its risk



tolerance level. The District should also review current coverage levels to determine whether changes are necessary.

- To supplement its overall policy and provide direction for the process, the Business Manager should work with the Board to develop detailed administrative guidelines that outline the process for developing, maintaining and reviewing specifications; obtaining and comparing quotes; completing paperwork (e.g., financial portion of applications); and maintaining documentation. Also, the guidelines should explain when to review specifications, when to start requesting quotes and should define staff responsibilities. The District should allow sufficient time for reviewing quotes and providing recommendations to the Board. When reviewing bids, the District should ensure the quoted costs are based on its formal insurance specifications. It should also review any differences in coverage levels, along with quoted costs, to allow for a reliable comparison of multiple agencies' bids. Lastly, the District should maximize the use of its membership in OSC by requesting quotes from its preferred agencies, and obtain formal Board approval for the selection of an agency.

## **Additional Recommendations**

This portion of the executive summary highlights additional recommendations from the audit report.

### *Purchasing*

- The District should implement a purchasing card (p-card) system and establish an appropriate controls on the use of p-cards, e.g., for purchases of items costing less than \$1,000. Doing so would expedite purchase order processing and reduce the related costs. District controls should include the establishment of appropriate policies and procedures when implementing the p-card purchasing system. The compatibility of the p-card with the USAS software should also be considered during the selection of a p-card provider.
- WCSD should review the duties performed by the Business Manager and other appropriate personnel to ensure functions related to centralized purchasing can be effectively performed by a current position. As the Business Manager is currently responsible for the purchasing process and based on elimination of the Business Manager's warehouse-related responsibilities by discontinuing warehouse operations, WCSD should consider consolidating the key District-wide purchasing responsibilities with the Business Manager's position. Regardless of the position selected, the appropriate job description should include key purchasing responsibilities to be performed, such as soliciting, reviewing, and comparing quotes and bids; selecting suppliers; and collecting information to monitor supplier performance. Furthermore, the District should carefully monitor the performance of these

duties. If the District determines that the centralized-purchasing duties are not being effectively performed by the selected position due to other workload responsibilities, it should then consider creating a new position and hiring a staff person with purchasing experience to perform these responsibilities.

### *Facilities*

- During future negotiations, the District should consider adjusting its salary schedules for maintenance positions. WCSD should also periodically review all salaries to determine the appropriateness of current salary schedules and make necessary adjustments.
- Warren CSD should formalize custodial procedures by establishing a standard operating manual to help increase efficiency and productivity. These procedures should specify the supplies to be used for each job duty, the frequency of job tasks, and the appropriate work steps. In addition to standardizing procedures, Warren CSD should complete annual job performance evaluations and provide training, especially when the District obtains new equipment or establishes new procedures. As the District transitions to fewer school buildings with larger square footages, it should consider implementing the team cleaning method in an effort to improve efficiency and minimize equipment costs, while still maintaining clean facilities. If the District implements the team cleaning method, it should rotate duties to minimize employee burn out.
- The Maintenance Department should use all the functions of its work order software system to aid in tracking supply costs, monitoring work order completion, and identifying supply needs. This can be achieved by providing training to department staff from the software supplier. This training will also allow reports to be generated for decision making purposes. In addition, the Maintenance Supervisor should establish formal procedures for the work order process. Lastly, the Maintenance Supervisor and the Business Manager should work with the software provider to ensure maintenance software compatibility with the USAS software currently in use in the Treasurer's office.
- The Maintenance Supervisor should join appropriate purchasing consortiums to provide access to additional competitive pricing. The Maintenance Supervisor should also compare pricing from consortiums and other suppliers, and consider purchasing supplies in bulk. The responsibility for joining consortiums, comparing pricing, and purchasing supplies in bulk could be assigned to another appropriate employee (e.g., the Business Manager), depending on whether the District centralizes purchasing functions.

### *Risk Management*

- WCSD administrators should work with the Board to develop a policy requiring a risk management plan, and subsequently develop and maintain a formal risk management plan. The plan should encompass current policies impacting risk management and address areas such as compliance with the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA) regulations, prevention priorities, and guidelines for handling accidents and tracking and analyzing related claims. At the end of each fiscal year, the safety advisory committee should review all incidents that occurred during the year and recommend steps to prevent future incidents. As new incidents arise, procedures for handling them should be added to the risk management plan. Additionally, the District should seek guidance from the Ohio Bureau of Workers' Compensation (BWC) and the OSC insurance consultant in developing a formal risk management plan. The District should review its risk management plan and policies with appropriate staff and periodically gauge compliance to ensure they are being followed. Any non-compliant areas should be promptly addressed. New policies should be created as required. Finally, the administration and Board should also identify the appropriate position to serve as the safety coordinator, and accordingly update District Administrative Guideline 7430.

## **Financial Implication Summary**

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions that the District should consider. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

### **Summary of Financial Implications**

<b>Recommendation</b>	<b>Estimated Annual Cost Savings</b>	<b>Estimated Implementation Costs (One-Time)</b>
<b>R2.4</b> Eliminate the Order Clerk position	\$43,000	
<b>R3.1</b> Reduce custodial staffing	\$268,000	
<b>R3.3</b> Purchase ISSA Manual		\$60
<b>R3.4</b> Provide software training		\$4,800
<b>R3.6</b> Reduce staffing in the warehouse	\$47,000	
<b>R3.7</b> Reduce utility costs	\$150,000	
<b>R5.2</b> Obtain services from a risk management consultant		\$5,000
<b>Total</b>	<b>\$508,000</b>	<b>\$9,860</b>

## **Issues Requiring Further Study**

Auditing standards require the disclosure of significant issues identified during an audit that are not reviewed in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors do not have the time or the resources to pursue. AOS has identified the following issues:

### *Purchasing*

- AOS noted some instances where the District is maintaining delinquent accounts, which could be due to not paying bills in a timely manner. For example, a delinquent account led to a reduction in the credit limit on a District credit card. Also, delivery of commodity food items from the State had been suspended at one point due to delinquent balances. In addition, the District indicated that the Treasurer's office has had a history of not closing the books on time at the end of each month. Finally, some suppliers have refused to do business with the District unless cash payment is received at the time of delivery. Based on these issues, the District should review its billing procedures and take measures to ensure that invoices are paid in a timely manner.

### *Facilities*

- The District was unable to explain or document factors driving the significant increase in base salaries in FY 2004-05. In addition, the same dollar amounts were reported in the District's financial reports both for new equipment within capital outlay, and for sick, personal and vacation leave expenditures for FY 2003-04 and FY 2004-05. The District's financial reporting may require further investigation to ensure these issues are accurately reported.

### *Food Service*

- As part of the OSFC construction, the Food Service Department is planning on cooking kitchens being in each of the newly constructed schools. According to the Food Service Supervisor, WCSD's staffing levels after the construction will be 40 positions yielding 211 hours per day. Because this is only slightly higher than the current total labor hours (209.3), the District would still be performing at a high efficiency level when compared to the peer districts. However, the District has the opportunity to implement a centralized kitchen to serve the five newly constructed schools. A centralized kitchen would help decrease the labor hours needed to prepare meals at each school and would decrease overhead and utility costs associated with operating a cooking kitchen at each of the five newly constructed schools. On the other hand, the District would need to determine the process and costs of delivering

prepared meals to the remaining schools, including the use of its current food service supplier. Therefore, WCSD should review the impact of the OSFC project on food service operations, and carefully weigh the costs and benefits of various options in making its final decision.

### *Risk Management*

- According to the District Treasurer, BWC advises that the District could be paying as much as \$700,000 in excess premiums. In addition, there is no internal claims review process or formal communication with the District's third-party administrator. The lack of a formal risk management plan may be contributing to this excess premium. Nevertheless, the District should work with the BWC and its third-party administrator to address its excess premium costs and reduce workers compensation costs.

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# Purchasing

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## Background

This section of the performance audit focuses on purchasing operations within the Warren City School District (Warren CSD, WCSD or District). The following questions were used to guide the assessment of Warren CSD's purchasing operations:

- Do District policies and procedures adequately cover pertinent purchasing areas including best practices and applicable statutory provisions?
- Does the District adhere to its policies and procedures, and statutory provisions?
- Is the supplier selection process based on effective procedures for requests for proposals, requests for qualifications, and competitive bidding?
- Are internal controls and oversight mechanisms adequate?

### *Organization Function and Staffing Levels*

The procurement function is staffed by 1.0 FTE Order Clerk. A Business Office Secretary and the Executive Director of Business Operations (Business Manager) also devote a portion of their time to the purchasing function. The Business and Treasurer's Offices are responsible for monitoring the appropriateness of purchases and the availability of funds. The Business Office Secretary is responsible for ensuring that purchase requisitions are reviewed by the Business Manager and bids have been submitted as needed. After receiving the requisition, the Order Clerk is responsible for issuing the purchase order number, typing all information into the Uniform School Accounting System (USAS), obtaining the Treasurer's signature authorizing fund availability, issuing the purchase orders, and final processing after the goods have been received or services have been rendered.

Warren CSD has a decentralized procurement system whereby operational units are responsible for completing much of the purchasing process including preparing purchase requisitions, obtaining quotes, and selecting suppliers. The Board of Education (Board) has established policies governing District purchases (see **Table 2-1**). WCSD also operates a warehouse (see the **Facilities** section for information on warehouse operations). Operational units must have a purchase order issued to obtain goods from the warehouse. They are charged the cost of the item as listed in the supply catalog plus a 10 percent mark-up to cover warehouse operating costs.

*Overall Assessment of Purchasing Practices*

**Table 2-1** compares Warren CSD's policies, procedures and other procurement controls to best practices identified or suggested by the Government Finance Officers Association (GFOA), the National Institute of Governmental Purchasing (NGIP), and Ammons *Municipal Benchmarks* (2001).

**Table 2-1: Best Practices for Purchasing**

Best Practices	Warren City School District
1. Standardization and improvement of solicitation documentation is an ongoing process. Staff continually seeks to implement practices to address changing requirements and to strengthen the credibility of the department. (NIGP)	1. The District does follow its policies and procedures for soliciting bids for purchases over \$25,000. However, quote documentation is not kept with the purchase requisition/purchase order. See <b>R2.1</b>
2. Use an automated purchasing system to perform purchasing activities including requisitioning, solicitations, bidder selections, response tabulations, purchase order awards, and receipt of goods or services. (NIGP)	2. The District does not use the feature of the USAS purchasing module or web-based technology to fully automate the purchasing process. See <b>R2.4</b>
3. Provide purchase training and manuals to inform employees how to handle purchases. (NIGP)	3. District policies provide some explanation of the purchasing process. However, no purchasing manual exists. See <b>R2.1</b>
4. Accurate levels of inventory are maintained. (NIGP)	4. Inventory is done manually once a year and too much stock is maintained. See <b>R3.6 in facilities</b>
5. Use purchase cards for small dollar purchases. (GFOA, NIGP)	5. While the District has a policy explaining the use of purchase cards (i.e., credit cards), they are only used for reservations, travel, and meeting setup. See <b>R2.3</b>
6. Seek to assure the quality of needed goods and services through standardization, inspection and contract administration. (NIGP)	6. A District policy exists that allows WCSD to obtain the following information: experience of bidder, financial condition, performance of previous contracts, and the ability to execute the contract properly. However, according to the Business Office Secretary, there is no program in place to track supplier performance. See <b>R2.1</b>
7. Negotiate and award large volume purchases and major contracts. (NIGP)	7. The District has entered into several co-operative purchasing agreements to purchase items in bulk.
8. Implement procedures to streamline the purchasing process. (NIGP)	8. WCSD does not have a fully computerized purchasing system, and does not take advantage of purchasing cards offered by its purchasing consortium. See <b>R2.3 and R2.4</b>
9. Reduce the use of site-operated stores, implement just-in time procedures, and increase use of technology. (NIGP)	9. The District operates a warehouse that maintains a large amount of stock. See <b>R3.6 in the facilities section</b>
10. Efficient transmittal of information between purchasing and finance department (Ammons)	10. Review of a sample of purchase orders revealed long processing times in the Treasurer’s Office between submission of requisitions and issuance of purchase orders. See <b>R2.4</b>
11. Cities take less than 10 days to process routine purchase orders (excluding sealed bids). (Ammons)	11. Purchase order sample revealed purchase orders took 21 days to process. See <b>R2.4</b>

Source: Auditor of State (AOS), GFOA, NGIP, and Ammons *Municipal Benchmarks*

*Issues for Further Study*

An area identified during the audit that may warrant further examination but was outside the scope of the audit is shown below.

- **Billing and Delinquencies:** AOS noted some instances where the District is maintaining delinquent accounts, which could be due to not paying bills in a timely manner. For example, a delinquent account led to a reduction in the credit limit on a District credit card. Also, delivery of commodity food items from the State had been suspended at one point due to delinquent balances. In addition, the District indicated that the Treasurer's Office has had a history of not closing the books on time at the end of each month. Finally, some suppliers have refused to do business with the District unless cash payment is received at the time of delivery. Based on these issues, the District should review its billing procedures and take measures to ensure that invoices are paid in a timely manner.

## Findings/Recommendations

F2.1 The District does not have a purchasing manual. The 1999 Auditor of State (AOS) WCSD Performance Audit recommended developing a purchasing manual containing current district policies, statutory requirements, and a detailed description of the procurement cycle. Additionally, the 1999 Performance Audit identified numerous areas lacking purchasing policies or efficient practices. The following compares those recommendations to the District's current policies and practices:

- **R2.15** indicates that the Board should adopt a formal policy requiring documentation of all quotes received to be attached, or noted on purchase requisitions before the purchase order is processed and that the District consider obtaining at least three quotes. However, no policy exists that requires documentation to be attached, and no documentation was found in a sample review of purchase orders. Furthermore, several policies covering quotes contradict each other. For example, Administrative Guideline 6320a indicates that quotes will be requested for any item or group of items in a single transaction costing between \$500 and the amount set by state statute for competitive bids, as determined by the Business Manager. However, Administrative Guideline 6320c1 indicates that three or more bids or quotes shall be solicited unless noted otherwise in specific procedures, but it does not specify a dollar threshold. This differs from the Board's procurement policy, which requires a minimum of two quotations for any purchase of a single item in excess of \$5,000 except in the case of an emergency or when materials purchased are of such a nature that price negotiations would not result in a savings to the District.
- **R2.16** indicates that the District should use its buying power to competitively bid out the most commonly used items and secure negotiated discounts with suppliers for the other items. Catalogs of bid items and preferred suppliers should be distributed to all operational units to be used when goods are needed. Two supervisors interviewed were able to provide a list of suppliers developed by the Treasurer's Office and last updated in early 2004, but the District could not provide a district-wide catalog of current and preferred suppliers. Additionally, the District lacks formal policies regarding the preferred supplier lists, including the supplier selection process.
- **R2.17** states that the Board should adopt a policy formally addressing the use of requests for proposals (RFP) in contracting for purchased services. The adopted policy should address dollar thresholds as well as the types of purchases that would be subject to competitive pricing. The District lacks a formal policy and procedure for the use of RFPs and RFQs (see **F2.2** and **R2.2**).

- **R2.21** states that the District should develop a supplier performance monitoring program. Information that should be monitored includes: quality of goods or services received, timeliness of deliveries, suppliers responsiveness to problems, goods continually being out of stock, price variances, and complaints. The District purchasing policy lacks this information, although it enables the Board to request evidence from the bidder concerning experience, financial condition, performance on previous contracts, and the ability to execute the contract properly. According to the Business Office Secretary, however, there is no program in place to track supplier performance.

As a matter of convenience, and due to the purchasing process being manual and paper driven (see **F2.4**), departments use blanket purchase orders for recurring monthly items. However, the District lacks a formal policy governing blanket purchase orders, and current administrative guidelines for purchasing do not specify how to process blanket orders nor do they establish a monthly dollar limit for blanket purchase orders. In addition, the District does not follow its purchase order process in some cases, primarily due to the lengthy time between the requisition and final approval of the purchase order (see **F2.4**).

According to the Texas Education Agency in its *Financial Accountability System Resource Guide* (2003), every school district, large and small, should have a written manual describing its purchasing policies and procedures. It should be designed to assist campus level and department level personnel in the purchasing of supplies and services. Rules and guidelines for those purchases consistent with relevant statutes, regulations and board policies are a vital part of the manual. A school district's purchasing manual typically will address the following items:

- Purchasing goals and objectives;
- Statutes, regulations, and board policies applicable to purchasing;
- Purchasing authority;
- Requisition and purchase order processing;
- Competitive procurement requirements and procedures;
- Supplier selection and relations;
- Receiving;
- Distribution; and
- Disposal of obsolete and surplus property.

In the absence of a comprehensive purchasing manual and clearly defined policies, District personnel may not be fully aware of their responsibilities and the process in general. This lack of awareness allows for different interpretations and application of purchasing practices among departments, such as bidding thresholds, and blanket

purchase orders. This, in turn, creates greater risk in the purchasing process, including the possibility of unauthorized purchases and the expenditure of District funds for supplies and services that may not be needed. The lack of clearly defined policies also prevents the District from effectively enforcing its policies and procedures.

**R2.1** The Business Manager, with assistance from the Treasurer, should work with the Board to develop a comprehensive purchasing manual that explains the purchasing process from start to completion. Furthermore, formal policies and procedures should be developed in the following areas and included in the manual:

- Dollar thresholds, number of price quotes, and types of purchases that would be subject to competitive pricing;
- Use of RFPs and RFQs (see **R2.2**);
- Approved and preferred suppliers, including the supplier selection and removal process;
- Information required for monitoring supplier performance;
- Use and restrictions for blanket purchase orders; and
- Documentation required to enable reviews of compliance with policies and procedures (e.g., documentation of price quotations and monitoring of supplier performance).

Each operational unit should be provided with at least one copy of the purchasing manual, and the District should review key components of the manual with staff. This manual should be updated on an annual basis or when significant changes to policies and procedures occur. After fully training staff and pilot testing the computerized procurement process discussed in **R2.4**, the purchasing manual should be updated to include an explanation of this process using the USAS information. The information provided should include copies of computer screens necessary for requisition processing, detailed instructions explaining the screens, flowcharts detailing the new electronic purchasing process, and other information deemed necessary.

F2.2 The Business Office Secretary indicated that RFQs are used for major construction work, such as Ohio School Facilities Commission (OSFC) projects. However, the District lacks a formal policy and process for developing RFPs and RFQs, which could potentially expose it to increased liability, poor workmanship, and unfinished jobs. Moreover, formalized templates for RFPs are not currently being used by department supervisors. Instead, supervisors take the time to create a new RFP as needed and tailor each RFP to the individual product or service required. Although all RFPs will not be the same, the lack of a formalized template could increase the possibility of some RFPs not containing key standard elements. The Voinovich Center for Leadership and Public Affairs' *Contract Management Manual* (2001) recommends numerous elements for inclusion in an RFP, including the following:

- Time table for the RFP process;
- Request that vendors submit a budget for the project or service;
- Detailed description of the services that will be performed under the contract;
- Vendor disclosures and a conflict of interest statement;
- Disclaimer indicating that the contracts resulting from the proposals are contingent on the availability of funds;
- Proposal delivery date, time, and address;
- Description of the evaluation process for proposals;
- Terms and conditions;
- Vendor project requirements and qualifications;
- Project deliverables, including performance expectations; and
- Reporting requirements.

The *Contract Management Manual* also indicates that a team should be formed to conduct advanced planning for an RFP, and a team leader should be identified to manage the effort of creating an RFP and determining the evaluation process. In creating the evaluation criteria, the team should identify the significant points in the RFP to evaluate and assign relative weights to each point. The team also needs to develop a system for scoring the proposals. Additionally, a team should be identified to evaluate the proposal submissions, which may be the same team that conducted the advanced planning. Furthermore, one person should be appointed as the contact for potential vendors to ensure consistency in responses.

In order to aid in the evaluation process, the *Contract Management Manual* provides the following sample evaluation criteria:

- Responsiveness to all items listed in the RFP;
- Relevance of services to be provided;
- Clarity and measurability of proposal to provide services;
- Continuous improvement strategy;
- Corporate capabilities; and
- Budget and cost-effectiveness.

In addition, according to the Texas Education Agency, a RFQ specifies the terms, conditions, work history, evaluation criteria, and scope of the work to be provided.

**R2.2** WCSD should develop policies and procedures within a comprehensive purchasing manual (see **R2.1**) that outlines the request for proposal (RFP) and request for qualifications (RFQ) processes to ensure accountability for the purchase of goods and services. Accordingly, the District should implement a formal process for developing and evaluating RFPs and RFQs. The District should also work with its Legal Counsel to



develop appropriate RFP and RFQ templates and identify key items for inclusion, such as terms, conditions, evaluation process, performance expectations, and reporting requirements.

- F2.3 Purchasing cards (p-card) are used only for reservations, travel, and meetings. Coupled with the current manual process, this could contribute to the long time involved in the purchasing process (see F2.4).

In an effort to help governments across Ohio provide the best services and accountability to citizens, AOS has developed a publication entitled *Best Practices*. Volume 1, Issue 2 (Winter 2004) of *Best Practices* highlights model policies with regard to government purchasing cards. According to this issue, p-cards are designed to streamline the acquisition process by issuing one check to a credit card company instead of multiple checks to a supplier. Consequently, governments realize significant savings in transaction costs and personnel resources. Other benefits associated with p-card programs, including those identified by the GFOA, are:

- Simplified authorization, payment, and review processes;
- Expedited delivery of goods;
- Less paperwork and documentation;
- Expanded options of suppliers, merchants, and vendors;
- Enhanced ability to establish and enforce purchasing limits and other restrictions;
- Immediate electronic authorization and verification at the point-of-purchase;
- Facilitated reviews of purchased items via online account information;
- Improved reporting capabilities via management information systems; and
- Fewer items to stock and inventory.

According to the GFOA, p-card programs should be designed to be simple and easy to use; however, governments need to maintain appropriate controls, in accordance with their purchasing policies, to ensure the ongoing success of a purchasing card. These controls should include:

- Written agreements with banks, which include fee schedules and processing procedures;
- Written policies and procedures for internal staff;
- Instructions on employee responsibility and written acknowledgments signed by the employee;
- Spending and transaction limits for each cardholder on both a per transaction and monthly basis;
- Written requests for higher spending limits;
- Recordkeeping requirement, including review and approval processes;

- Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved Merchant Category Codes (MCC);
- Guidelines for making purchases by telephone and fax or over the Internet;
- Periodic audits of card activity, retention of sales receipts and documentation of purchases;
- Procedure for handling disputes and unauthorized purchases;
- Procedures for card issuance and cancellation, lost or stolen cards, and employee termination; and
- Segregation of duties for payment approvals, accounting, and reconciliations.

Zanesville CSD has successfully implemented a p-card program and established policies and procedures for making related purchases. Zanesville CSD's p-card policy states: "The Board of Education recognizes the efficiency and convenience afforded the day-by-day operation of the school district by creating a purchasing/ procurement card system in each department as established by the Treasurer. The Board shall require the imposition of such controls as will prevent abuse of such funds and provide a detailed audit trail." Also, Hamilton CSD has drafted p-card usage policies and it will be piloting the program for the next school year.

The Ohio Office of Budget and Management (OBM) payment card program is designed to empower state employees to make small-dollar purchases. The program allows employees to acquire goods and certain services, as they are needed for operations without undue delay. It is designed primarily for the purchase of tangible materials, equipment, supplies, and approved services that cost less than \$1,000. Any state entity can participate in the OBM program with proper authorization and approval. The AOS Winter 2004 Best Practices contains a summary of the internal controls for the state program.

Based on a review by audit staff of a sample of District purchase orders, 80 percent were for amounts less than \$1,000. Therefore, based on the OBM threshold of \$1,000, the District could reduce a considerable number of separate purchase order transactions, and in doing so, improve efficiency and timeliness in the purchasing process by using a p-card program.

**R2.3** The District should implement a p-card system and establish appropriate controls on the use of p-cards, e.g., for purchases of items costing less than \$1,000. Doing so would expedite purchase order processing and reduce the related costs. District controls should include the establishment of appropriate policies and procedures when implementing the p-card purchasing system. The compatibility of the p-card with USAS software should also be considered during the selection of a p-card provider.

F2.4 The WCSD purchasing cycle is manual and paper-driven due to the District not fully using the purchasing function of USAS. This increases the time required for purchase orders to be issued upon receipt of purchase requisitions. Furthermore, the lengthy time lag between receipt of a requisition and issuance of the purchase order has resulted in operating units at WCSD using blanket purchase orders, despite the lack of a policy governing their use (see **R2.1**). The 1999 Performance Audit recommended that a detailed evaluation of the procurement cycle be conducted to identify means by which school purchase orders can be processed in a more timely fashion, including implementation of an electronic procurement system. However, the District did not provide evidence that an evaluation was conducted, and a fully automated system is not in place. The current purchasing process is as follows:

1. Purchase requisition form is received by the Treasurer's Office from the Business Office, signed by the Business Manager.
2. Purchase requisition form is assigned a number and date of issuance.
3. Purchase information is entered into the USAS system, which verifies fund availability and encumbers the needed funds.
4. The Treasurer signs the purchase order indicating fund availability.
5. The color categorized copies of the purchase order are forwarded to the following different parties:
  - White – supplier copy;
  - Yellow –Accounts Payable Clerk copy;
  - Pink – warehouse or operating unit as receiving copy;
  - Blue – goes with the pink copy as warehouse copy;
  - Green – maintained by Purchase Order Clerk;
  - Goldenrod – operating unit supervisor copy; and
  - Blue – originator copy.
6. The warehouse or operating unit sends the pink copy back to the Treasurer's Office as verification that items have been received or work has been completed.

The District's current purchasing process is time-consuming. AOS reviewed a random sample of 56 purchase orders, which showed it took an average of 21 days from requisition approval date to the purchase order issue date. According to David Ammon's *Municipal Benchmarks* (2001), requisition and issuance of a routine purchase order should take no more than 10 days. Under the District's manual process, the requisitioner does not know if funds are available when the requisition is submitted, because the Order

Clerk enters the requisitions into the USAS system. Requisitions are not processed until the funds become available, which could contribute to the lengthy time frame from original requisition to issuance of purchase orders. Also, the Treasurer does not sign purchase orders unless there is a large number to be processed. If the purchase order is for a service that must be addressed immediately, the work may be done without the Treasurer's signature and funds being encumbered. In addition to the inherently lengthy manual process, this also inhibits District supervisors from knowing when to anticipate receipt of goods necessary for their operations. Lastly, the Order Clerk's primary responsibility is to enter all purchase requisitions into the computer system and assign purchase order numbers.

The Treasurer's Office has recently converted to the USAS software, which has accounting, budgeting, and purchase processing functions. While the District is using the USAS system to create purchase orders, it is not using other key features (e.g., creating requisitions) and has not integrated the purchasing module of the USAS software with the financial management module. All of the peer districts use the purchasing function of the USAS system to a greater degree than WCSD.

The USAS procurement software module is compatible with the USAS financial management system. Using the procurement software with the financial management software would help integrate the District's Business Office with the Treasurer's Office. In addition to creating purchase orders, the purchasing module enables the District to do the following electronically:

- Create new requisitions;
- Convert requisitions into purchase orders;
- Create future purchase orders;
- Delete new purchase orders;
- Modify requisitions and existing purchase orders;
- Charge a purchase order item to more than one account;
- Print new or existing purchase orders;
- Load existing purchase orders into new purchase orders;
- View purchase orders; and
- Find existing purchase orders.

The USAS purchasing module would allow the District to determine, at any point, where an order is in the process. When processing requisitions, the USAS purchasing module will inform the individual of current fund availability by checking cash, appropriations, and budget accounts; and issuing warnings when remaining balances have been exceeded. Additionally, because requisitions can be created directly in the computerized

system by staff, this eliminates the manual process of having the Order Clerk enter requisitions and assign purchase order numbers.

According to American School and University (AS&U) Magazine in the article “*The E-Commerce Quandary*” (2002), schools taking advantage of an electronic purchasing system increase the efficiency of the whole procurement operation. Streamlining the purchasing procedure could save schools time, money, and aggravation. The AS&U article also notes that many institutions have moved their procurement systems online and have found that the change has delivered what was promised: less bureaucracy, more efficiency, and better prices. Besides reducing red tape, online purchasing removes the barrier of geography for schools. In a traditional bid arrangement, it might not be practical for firms from outside the region to submit a bid. Online procurement companies often seek out relationships with suppliers to provide schools with a greater variety of purchasing options.

- R2.4** WCSD should fully use the purchasing module of the USAS software and integrate it with the financial management module. Subsequently, staff should be provided training on how to use the procurement system to its fullest capacity. When staff has been trained on the system, the Business Manager should work with the Treasurer to develop a pilot program using the purchasing module in USAS, so that issues can be identified and addressed before using the electronic process District-wide. In addition, the Treasurer’s Office should approve the purchase orders and certify fund availability in a timely manner. Furthermore, the new process should be added to the purchasing manual recommended in **R2.1**. As the District becomes accustomed to its internal electronic purchasing system, it should explore online purchasing with suppliers as a mechanism to expand competition and receive additional bids and price quotes. After successful implementation of the new procurement process, the District should consider eliminating the current Order Clerk position.

*Financial Implication:* If the District eliminated the Order Clerk position, it would save approximately \$43,000 annually in salaries and benefits.

- F2.5 According to the job description, the Business Manager is responsible for the WCSD purchasing process. However, according to the Business Manager, the District has a decentralized purchasing function, whereby each department is responsible for finding suppliers, and getting quotes and bids. This could be due, in part, to the fact that purchasing responsibilities comprise only 2 of the 32 total position responsibilities in the Business Manager’s job description. The job description also lacks key purchasing activities to be performed by the Business Manager (e.g., establishing bulk purchasing agreements, selecting suppliers, and monitoring supplier performance). As a result, the Business Manager may be hampered in efforts to truly centralize key purchasing functions.

According to the National Institute of Governmental Procurement (NIGP) in *Centralization of the Procurement Function* (1998), the major benefits of centralizing the purchasing function are: effective control (uniform oversight and procedures), cost saving (volume buys, establishment of requirements contracts, use of standard specifications and standard contract terms), and use of a professional purchasing staff (they can develop, issue, and establish contracts for use of the jurisdiction). NIGP also indicates that most modern procurement functions incorporate features of both centralized and decentralized systems through the use of information technology. Information technology allows selective delegation of procurement functions while allowing the central procurement function to retain the controls that ensure fair and impartial purchasing. Tasks such as making small purchases could be best performed at the user level with proper controls and oversight through on-site and system audits. This could free up purchasing staff to concentrate on contracting efforts that result in major cost savings and continue to offer effective term contracts that can be widely used.

The lack of centralization of major purchasing activities can lead to inconsistencies in purchasing practices, which could subsequently impact the District's ability to take advantage of its overall purchasing power. For example, while the Custodial Department purchases its major cleaning chemicals in bulk from one supplier chosen through a competitive bid process, the maintenance department does not purchase a significant portion of its supplies and materials in bulk or through a consortium (see the **facilities** section for more information). Additionally, the District is not consistently obtaining quotes from multiple insurance providers (see the **insurance** section for more information); lacks documentation to ensure that staff obtain multiple bids (see **R2.1**); and does not have a formal process for developing and evaluating RFPs and RFQs (see **R2.2**). The absence of a centralized purchasing function could also contribute to the lack of documentation for monitoring supplier performance (see **R2.1**).

**R2.5** WCSD should review the duties of the Business Manager and other appropriate personnel to ensure functions related to centralized purchasing can be effectively performed. As the Business Manager is currently responsible for the purchasing process, and based on elimination of the Business Manager's warehouse-related responsibilities by discontinuing warehouse operations (see **R3.6** in **facilities**), WCSD should consider consolidating the key District-wide purchasing responsibilities within the Business Manager position. Regardless of the position selected, the appropriate job description should include key purchasing responsibilities to be performed, such as the following:

- Soliciting, reviewing, and comparing quotes and bids (see **R2.1** and **R5.1** in the **insurance** section);
- Negotiating and establishing bulk purchase agreements;
- Developing and implementing formal and uniform RFP and RFQ processes (see **R2.2**);

- Selecting suppliers, and developing and maintaining a District-wide catalog for preferred and approved suppliers (see **R2.1**);
- Collecting information to monitor supplier performance (see **R2.1**);
- Creating and updating purchasing policies and procedures, which should ultimately be encompassed in a purchasing manual (see **R2.1**);
- Maintaining appropriate documentation to enable this position to review compliance with District purchasing policies and procedures (see **R2.1**);
- Providing oversight and periodic audits of decentralized purchasing activities (e.g., requisition to purchase order process in the USAS system and using p-cards – see **R2.3** and **R2.4**); and
- Implementing and monitoring a just-in-time delivery system (see **R3.6** in the **facilities** section).

The District should carefully monitor the performance of these duties. If it determines that the centralized purchasing duties are not being effectively performed by the selected position due to other workload responsibilities, it should then consider creating a new position and hiring a staff person with purchasing experience to perform these responsibilities.

By centralizing major purchasing activities and using the purchasing module in the USAS system, the District would improve its ability to obtain competitive pricing and better ensure that key activities are performed in a standard, effective and consistent manner, while simultaneously creating a more efficient purchasing process.

## Financial Implication Summary

The following table presents a summary of the estimated annual cost savings discussed in this section. For purposes of this table, only recommendations with quantifiable impacts are included.

### Summary of Financial Implications

Recommendation	Estimated Annual Cost Savings
R2.4 Eliminate the Order Clerk position	\$43,000
<b>Total</b>	<b>\$43,000</b>





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# Facilities

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## Background

The facilities section focuses on the Custodial and Maintenance Departments of the Warren City School District (Warren CSD, WCSD or the District). The objective is to analyze building operations and develop recommendations for improvements and reductions in expenditures.

The following questions were used to guide the assessment of the District's facilities function:

- How do the District's facility operations and expenditures compare to peers and best practices?
- Is the District's custodial and maintenance staffing comparable to peer districts and best practices?
- Are custodial and maintenance overtime costs excessive?
- Are District energy management practices comparable to peer districts and best practices?

### *Organizational Structure and Function*

The Business Manager reports to the Superintendent and oversees the Custodial and Maintenance Departments. WCSD employs 2.0 FTE supervisors who manage the Custodial and Maintenance Departments. The Custodial Supervisor is responsible for building safety and supervision of custodians. The Maintenance Supervisor directs building maintenance, the grounds crew, and warehouse operations. Custodial staff during FY 2005 consisted of 58.0 FTEs and included head custodians and assistant custodians. Head custodians supervise assistant custodians and perform a variety of tasks to ensure cleanliness of facilities. They also perform minor maintenance duties. Assistant custodians perform similar tasks to ensure cleanliness of buildings and perform some grounds-keeping duties close to the buildings. Maintenance staff includes seven tradesmen FTEs: Carpenters, Painters, Mechanics, and a Preventive Maintenance Technician. The grounds crew consists of five FTEs. In addition, warehouse operations are staffed by two FTEs: a Warehouse Manager and an Assistant Warehouse Manager.

**Table 3-1** illustrates custodial and maintenance staffing levels and the number of FTEs by classification.

**Table 3-1 Number of Positions and FTEs in FY 2004-2005**

Classification	Positions	FTEs	Vacancies
<b>Custodial</b>	60.0	58.0	0.0
-Head Custodian	15.0	15.0	0.0
-Assistant Custodians (Janitors)	45.0	43.0	0.0
<b>Maintenance and Grounds</b>	12.0	12.0	0.0
-Maintenance	7.0	7.0	0.0
-Grounds	5.0	5.0	0.0
<b>Total</b>	<b>72.0</b>	<b>70.0</b>	<b>0.0</b>

Source: Warren CSD Staff Listings, Interviews

### *Summary of Operations*

Warren CSD is in the process of building new schools under an Ohio Schools Facilities Commission (OSFC) project. Based on this project, the District anticipates closing the 13 current school buildings (9 elementary, 3 middle schools, and one high school) and opening five new schools by 2009 (four grade K-8 schools and one grade 9-12 high school). Five elementary schools have already been closed in the last five fiscal years. Secrest Elementary School was closed for the 2005-06 school year. The District currently maintains a total of 17 buildings, including the Washington Alternative School, the administration building, the maintenance building, and the transportation center. For the FY 2005 school year, the District maintained a total of 958,379 building square feet and 146 acres of grounds.

Key statistics related to the maintenance and operation of Warren CSD are presented in **Table 3-2**. In addition, results from the 34th Annual American Schools and University (AS&U) Maintenance and Operations (M&O) Cost Study, which was released in April 2005, are included in **Table 3-2**. AS&U conducted a detailed survey of chief business officials at public school districts across the nation to gather information regarding staffing levels, expenditures, and salaries for maintenance and custodial workers. This report provides the median number for each expenditure category on a national level and by district enrollment. **Table 3-2** also includes the normal standard for square footage per custodian from *The Planning Guide for Maintaining School Facilities* (2003), published in cooperation with the National Center on Education Statistics (NCES) and the Association of School Business Officials International. The NCES is the primary federal entity responsible for collecting, analyzing, and reporting data related to education in the United States. A five-tiered system of expectations for cleanliness has been developed by the NCES. Level 3 is the norm for most school facilities, which is acceptable to most stakeholders and does not pose any health issues. Based on the Level 3 standard, a custodian can clean approximately 28,000 to 31,000 square feet in an 8 hour shift. **Table 3-2** includes the average of the Level 3 cleaning range at 29,500 square feet in an 8 hour shift.

**Table 3-2: FY 2004-05 Key Statistics and Indicators**

	<b>FY 04-05</b>
<b>Number of Sites</b>	<b>17</b>
- Elementary Schools	9
- Middle Schools	3
- High Schools	1
- Other	4
<b>Total Square Feet Maintained</b>	<b>958,379</b>
- Elementary Schools	259,800
- Middle Schools	440,500
- High Schools	195,000
- Other	63,079
<b>Square Feet per FTE Custodial Staff Member ( 58.0 FTEs)</b>	<b>16,524</b>
- Elementary Schools (20.5 FTEs)	12,673
- Middle Schools (22.5 FTEs)	19,578
- High School (11.0 FTEs)	17,727
- Other (4.0 FTEs)	15,770
<b>AS&amp;U Annual M&amp;O Cost Study &gt;3,500 Students</b>	<b>20,311</b>
<b>AS&amp;U Annual M&amp;O Cost Study National Median</b>	<b>25,444</b>
<b>National Center for Education Statistics (NCES)</b>	<b>29,500</b>
<b>Peer District Average</b>	<b>20,098</b>
<b>Square Feet per FTE Maintenance Tradesman (7.0 FTEs)</b>	<b>136,911</b>
<b>AS&amp;U Annual M&amp;O Cost Study &gt;3,500 Students</b>	<b>85,572</b>
<b>AS&amp;U Annual M&amp;O Cost Study National Median</b>	<b>87,931</b>
<b>Peer District Average</b>	<b>107,658</b>
<b>Acres per Grounds Crew FTE (5.0FTEs)</b>	<b>29</b>
<b>AS&amp;U Annual M&amp;O Cost Study &gt;3,500 Students</b>	<b>50</b>
<b>AS&amp;U Annual M&amp;O Cost Study National Median</b>	<b>41</b>
<b>Peer District Average</b>	<b>51</b>
<b>Maintenance and Operations Expenditures per Square Foot</b>	<b>\$6.86</b>
-Salaries and Benefits	\$4.11
-Purchased Services	\$0.69
-Utilities	\$1.59
-Supplies and Materials	\$0.28
-Capital Outlay	\$0.19
-Other	\$0.00
<b>AS&amp;U Annual M&amp;O Cost Study &gt;3,500 Students</b>	<b>\$4.29</b>
<b>AS&amp;U Annual M&amp;O Cost Study National Median</b>	<b>\$3.84</b>
<b>Peer District Average</b>	<b>\$5.48</b>

**Source:** WBSD and Peer District FY04 & FY05 4502 Reports, WBSD and Peer District Staff Listings, AS&U FY04 & FY05 Cost Study, and NCES

As shown in **Table 3-2**, WBSD maintains significantly fewer square feet per custodian FTE and acres per grounds FTE when compared to the AS&U medians, the NCES benchmark, and the peer average (see **R3.1** for custodians and *Assessments Not Yielding Recommendations* for grounds). This contributes to the District's relatively high expenditures per square foot. Conversely, the District maintains more square feet per maintenance FTE when compared to the AS&U medians and the peer average.

### Financial Data

**Table 3-3** presents a three-year summary of actual expenditures by type for the General Fund and includes total expenditures for all funds reported in the 2700 (Operation and Maintenance of Plant Services) function code of the Uniform School Accounting System (USAS) for maintaining and operating Warren CSD's facilities.

**Table 3-3: Three-Year Maintenance and Operations Expenditures**

Descriptions	FY03	FY04	Percentage Change	FY05	Percentage Change
Salaries and Wages	\$2,789,921	\$2,380,144	-14.7%	\$2,790,361	17.2%
Retirement and Insurance	\$1,144,851	\$849,062	-25.8%	\$1,145,581	34.9%
Purchased Services	\$1,106,140	\$613,972	-44.5%	\$661,260	7.7%
Utilities	\$1,515,126	\$1,414,816	-6.6%	\$1,525,328	7.8%
Supplies & Materials	\$327,850	\$237,787	-27.5%	\$269,789	13.5%
Capital Outlay	\$112,023	\$163,019	45.5%	\$181,819	11.5%
<b>Total General Fund</b>	<b>\$6,995,911</b>	<b>\$5,658,800</b>	<b>-19.1%</b>	<b>\$6,574,138</b>	<b>16.2%</b>
<b>Total All Funds</b>	<b>\$7,231,238</b>	<b>\$5,777,076</b>	<b>-20.1%</b>	<b>\$6,713,435</b>	<b>16.2%</b>

Source: Warren CSD BUDSUM reports for 2003, 2004, and 2005

Overall, **Table 3-3** shows that expenditures from all funds decreased by 20 percent from FY2002-03 to FY03-04, and then increased by 16 percent in FY2004-05. Explanations for significant variances in **Table 3-3** are as follows:

- Salaries and Wages/Retirement and Insurance** – The decreases in FY 2003-04 for both of these line items are a result of staffing reductions attributable to the District closing Devon and Roosevelt Elementary Schools in June 2003. The increases in both categories during FY 2004-05 resulted partially from a 3 percent wage increase. However, this does not account for the entire 17.2 percent increase in the salaries and wages. Based on a review of the District's financial reports, base salaries increased considerably, which primarily contributed to the overall increase in salaries and benefits. However, the District did not add maintenance or grounds staff in FY 2004-05, and actually reduced two custodial FTEs in FY 2004-05 due to the closing of McKinley Elementary School in June 2004. Additionally, with a few exceptions (see F2.2), maintenance, grounds and custodian staff do not have salary step increases. The District was unable to explain the increase in the salaries and wages beyond the 4 percent wage increase. Furthermore, the same dollar amounts were reported in the District's financial reports for sick, personal and vacation leave expenditures for FY 2003-04 and FY 2004-05 (see *Issue for Further Study*). In addition to the increases in salaries and wages, the 34.9 percent increase in retirement and insurance expenditures is due to increases in health insurance costs.

- **Purchased Services** – This line item decreased 44.5 percent from FY 2002-03 to FY 2003-04. This was due to the District not renewing its contract for management of the custodial, maintenance and grounds operations.
- **Supplies and Materials** – This line item decreased 27.5 percent from FY 2002-03 to FY 2003-04, and then increased 13.5 percent in FY 2004-05. These variances are primarily due to fluctuations in expenditures related to building repair materials.
- **Capital Outlay** – This line item increased by 45.5 percent in FY 2003-04 and 11.5 percent in FY 2004-05. The increase in FY 2003-04 is due to new equipment as reflected in the financial reports, although the Treasurer’s Office could not identify the new equipment purchased. The same \$84,611 expenditure is shown on the FY 2004-05 financial data as well (see *Issue for Further Study*).

**Table 3-4** compares Warren CSD’s FY 2004-05 expenditures per square foot, by facilities-related cost areas, with those of peers and the AS&U survey.

**Table 3-4: Facilities Expenditures per Square Foot in FY 2004-05**

Line Items	Warren	Barberton	Hamilton	Zanesville	Peer Average	AS&U Median	> 3,500 Students
<b>Square Footage</b>	958,379	725,014	1,364,147	618,063	902,408	N/A	
<b>Salaries and Benefits</b>	\$4.11	\$2.99	\$2.95	\$3.63	\$3.19	<b>\$1.79</b>	<b>\$2.39</b>
<b>Purchased Services</b>	\$0.69	\$0.81	\$0.87	\$0.37	\$0.68	<b>\$0.24</b>	<b>\$0.14</b>
<b>Utilities</b>	\$1.59	\$1.40	\$1.64	\$1.13	\$1.39	<b>\$1.35</b>	<b>\$1.37</b>
<b>Supplies and Materials</b>	\$0.28	\$0.32	\$0.27	\$0.24	\$0.27	<b>\$0.27</b>	<b>\$0.25</b>
<b>Capital Outlay</b>	\$0.19	\$0.00	\$0.00	\$0.04	\$0.01	N/A	
<b>Other</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	<b>\$0.19</b>	<b>\$0.14</b>
<b>General Fund Total</b>	\$6.86	\$5.52	\$5.74	\$5.40	\$5.55	N/A	
<b>All Funds Total<sup>1</sup></b>	\$7.00	\$5.84	\$6.04	\$5.42	\$5.77	<b>\$3.84</b>	<b>\$4.29</b>

**Source:** WCSD and peer district Treasurer’s Office, FY 2004-2005 Expense Budget Worksheets-Function 2700

<sup>1</sup> All Funds Total includes non-General Fund facility-related expenditures per square foot consisting of \$0.09 for Salaries and Benefits and \$0.05 for Purchased Services at Warren CSD. Barberton’s non-General Fund expenditures are attributable to Salaries and Benefits (\$0.13) and purchased services (\$0.19). Detailed data for other peers was not available.

As illustrated in **Table 3-4**, Warren CSD’s General Fund and all fund expenditures are higher than both the peer average and AS&U medians, primarily due to salaries and benefits (see **R3.1** and **R3.2**), utilities (see **R3.7**), and capital outlay (see *Issue for Further Study*).

### *Noteworthy Accomplishments*

During the course of the audit, the following noteworthy accomplishment was identified within the Maintenance Department:

- **Maintenance Staffing** – Warren CSD’s square feet per maintenance FTE is the highest when compared to the peer districts and 30.5 percent higher than the peer average. Additionally, the District’s square feet per maintenance FTE is 55.7 and 60.0 percent higher than the AS&U national median and similar-sized district median, respectively. When the new schools are in full operation, the square footage per maintenance FTE will decrease to 131,371, which is still higher than the peers and AS&U medians.

### *Assessments not Yielding Recommendations*

During the course of this audit, several areas were reviewed that yielded no recommendations. These are highlighted below:

- **Grounds Staffing** – The NCES standard states that an acceptable ratio of grounds crew staff to acres maintained is 1:20. The District ratio of 1:29 is above this ratio. Although WCSD’s acre per grounds staff is 43 percent lower than the peer average, Hamilton CSD is a larger school district and is significantly skewing the peer average. More specifically, Hamilton CSD is maintaining 93 acres per FTE. When excluding Hamilton CSD, the peers are maintaining an average of 30 acres per FTE, similar to WCSD.
- **Overtime Expenditures** – District overtime expenditures as a percent of wages from FY 2002-03 to FY 2004-05 appear minimal and remained fairly consistent at approximately 4.25 percent. However, overtime for maintenance activities comprised over 75 percent of total overtime expenditures (approximately \$82,000 to \$93,000) from FY 2002-03 to FY 2004-05. According to the Maintenance Supervisor, fewer maintenance staff may be needed with the newer buildings because the maintenance function will be shifting from a “boards and nails” focus to a preventive maintenance and electrical work focus. The new schools will be much more technologically advanced than the current schools, and the maintenance staff will be receiving training on the new electrical systems before the buildings are ready for operation. In general, the frequency of repairs and maintenance with the newer buildings may not be as extensive as with the current older buildings, thereby reducing overtime for maintenance activities. However, reviewing the related maintenance activities and monitoring overtime use as the District transitions to the newer buildings could help the Maintenance Supervisor determine methods to minimize overtime costs while still maintaining a high level of staffing efficiency (e.g., as measured by square footage per maintenance FTE).

*Issues for Further Study*

An additional area was identified during the audit that may warrant examination but was outside the scope of the current engagement. This is shown below:

- **Financial Reporting:** The District was unable to explain or document factors driving the significant increase in base salaries in FY 2004-05. In addition, the same dollar amounts were reported in the District's financial reports in the categories of new equipment within capital outlay, and sick, personal and vacation leave expenditures for FY 2003-04 and FY 2004-05. Therefore, the District should further investigate these issues and take measures to ensure they are accurately reported.



## Findings and Recommendations

### Staffing

F3.1 The District does not have a formal method for establishing staffing levels based on workload. **Table 3-5** compares WCSD's workload by classification with the peers and national benchmarks.

**Table 3-5: Peer FTE Staffing Comparison FY 2005**

	Warren CSD	Barberton CSD	Hamilton CSD <sup>1</sup>	Zanesville CSD	Peer Average
<b>Square Footage per Custodian FTE</b>	16,524	25,318	17,489	16,482	18,781

**Source:** Warren CSD and Peer District Staff listings and interviews

<sup>1</sup>Custodians assist with mowing.

**Table 3-5** illustrates that WCSD's square feet cleaned per custodian FTE is the second lowest when compared to the peers, and 12.0 percent lower than the peer average. WCSD's square footage per custodial FTE is also 44 percent below the NCES Level 3 standard of 29,500 square feet for school facilities; 19 percent below the median square footage per FTE reported by AS&U for schools with more than 3,500 students (20,311); and 35 percent below the AS&U national median (25,444). As a result, the District's salary and benefit expenditures per square foot are significantly higher than the peer average and AS&U medians (see **Table 3-4**).

A reduction in the number of custodians was recommended in the 1999 Performance Audit of Warren City Schools. At the time of the previous audit, there were 67 custodial FTEs. Five elementary schools have been closed since the 1998-1999 school year, and the custodial staff has decreased to 58 FTEs. Furthermore, the custodial staffing level has remained almost the same although more efficient cleaning methods have been instituted. For example, each school has a machine that automatically dilutes the chemicals for use by custodians. The cleaning chemical supplier also provides training to District custodians on topics such as proper cleaning techniques and procedures for handling blood-borne pathogens.

By not formally establishing staffing levels based on workload data such as square footage, the District cannot ensure that it is operating with an appropriate number of personnel. For instance, based on the NCES Level 3 criteria, WCSD should have 32.5 custodial FTEs instead of the current 58 FTEs, or 25.5 fewer FTEs. When compared to the peer average, the District should have 51 FTEs, or 7.0 fewer FTEs. In addition, the District will be maintaining 919,599 square feet once the construction of the five new schools is complete, which is lower than the current square footage (958,379). Therefore, when construction is complete and the new schools are operational, the District could

reduce at least 2.0 more FTEs to operate with 49 FTEs, to maintain similar square footage per FTE as the peer average. Based on the NCES Level 3 criteria, however, the District could reduce up to a total of 27 FTEs based on current staffing levels, when the new schools are in full operation.

**R3.1** WCSD should use data such as building square footage to determine and evaluate its staffing levels. Based on building square footage, the District should reduce at least 7.0 custodian FTEs. When the new schools are in full operation, the District should reduce at least an additional 2.0 custodian FTEs. However, the District should continually monitor custodial workload and target the NCES standards, which would enable it to exceed peer district performance and operate at a higher level of efficiency. This would be particularly important if the District faces financial difficulties in the future.

*Financial Implication:* If WCSD reduced its custodial staff by at least 7.0 FTEs to be comparable to the peer average, it would achieve an annual cost savings of \$268,000 per year in salaries and benefits. This is based on the lowest custodial hourly rate in the negotiated agreement for the 2005-06 school year at \$13.09 and the 2004-05 benefits as a percentage of wages of 41.05 percent. If WCSD reduced an additional 2.0 custodian FTEs when the new schools are in operation, the additional savings would be approximately \$77,000 annually.

### Salaries

F3.2 In addition to high custodial staffing levels, the District's maintenance salaries are contributing to the higher salary and benefit expenditures in **Table 3-4**. **Table 3-6** compares average custodial and maintenance salaries to the peers, as reported in each districts' EMIS reports.

**Table 3-6: Average Salaries per FTE for FY 2004-05**

	Warren CSD	Barberton CSD	Hamilton CSD	Zanesville CSD	Peer Average
<b>Custodians</b>	\$28,267	\$30,998	\$28,415	\$28,672	\$29,362
<b>Maintenance</b>	\$45,826	\$35,800	\$22,449	\$30,529	\$29,593

Source: EMIS reports

**Table 3-6** shows that while Warren CSD's average custodial salary is similar to Hamilton CSD and Zanesville CSD, its average maintenance salary is higher than all three peers. This is due to the salary schedules in the collective bargaining agreements. With the exception of apprentice carpenters (four steps), preventive maintenance technicians (three steps) and the warehouse manager (two steps), Warren CSD does not have a salary step schedule for its classified staff. However, Warren CSD's average hourly rate at the highest step for maintenance positions (\$22.86) is higher than all three peers' average maintenance hourly rate at their respective maximum step (Barberton CSD at \$15.26;

Hamilton CSD at \$18.18; and Zanesville CSD at \$14.76). Considering this large disparity in maximum hourly rates, and because WCSD does not have a step schedule for most maintenance positions, the District hires new maintenance employees at significantly higher starting salaries than the peers under its current salary schedule. For instance, the average starting salary for WCSD's maintenance personnel is \$22.05, which is significantly higher than the peers' average maintenance hourly rates at the **highest** step.

Although WCSD's maintenance staff is responsible for more square footage per FTE than the peers (see *Noteworthy Accomplishments*), offering much higher salaries increases the District's personnel costs. This could be especially problematic if WCSD encounters financial difficulties in the future.

- R3.2** During future negotiations, the District should consider adjusting its salary schedules for maintenance positions. WCSD should also periodically review all salaries to determine the appropriateness of current salary schedules and make necessary adjustments.

### *Custodian Procedures*

- F3.3 The District chose not to renew its facility management contract three years ago, requiring it to hire in-house managers for the Custodial and Maintenance Departments. However, the District has not developed a standard operating procedure manual for the Custodial Department. Custodians in each building report to a head custodian who provides direct supervision to custodians and receives instruction from the Custodial Supervisor regarding scheduling and task assignments. The Custodial Supervisor has attempted to provide training to employees through the use of custodial suppliers. Additionally, the Custodial Supervisor performs custodial inspections in two buildings per week. Annual employee performance evaluations are not currently completed, contrary to the recommendation in the 1999 Performance Audit.

The Association of School Business Officials International published the *Custodial Methods and Procedures Manual* (2000), to serve as a guideline for developing standards and procedures for custodial personnel. This manual outlines staffing approaches, daily duties and tasks, job descriptions, job schedules, evaluations, and cleaning procedures and methods for various job tasks. Furthermore, the International Sanitary Supply Association (ISSA) has developed a training program manual designed to help train custodians, which can be implemented at most educational facilities. The program details the correct cleaning methods as well as the proper use of custodial equipment. This manual details procedures, guidelines and suggestions for the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;

- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;
- Rotary floor machines;
- Scrubbing/stripping;
- Spray buffing/high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

NCES offers criteria for custodial management decisions regarding custodial cleaning methods. The two methods used are area cleaning and team cleaning. Area cleaning is a traditional approach to custodial work, still commonly used in small districts, in which a custodian is responsible for all aspects of cleaning (e.g., vacuuming, dusting, trash removal) in a specific area. By contrast, team cleaning relies on specialists, with one person handling all the vacuuming, one person washing all the chalkboards, one person cleaning all the bathrooms. In theory, team cleaning is more efficient than area cleaning; thus, a four-person team can be expected to clean more than four times the square footage of one area cleaner. This approach is also equipment-efficient because each team of four needs only one vacuum; whereas each area custodian needs his or her own vacuum, mop, broom, and floor polisher. In addition, NCES indicates that rotating team members' cleaning duties could help minimize employee "burn out" related to using specialists in the team cleaning method. NCES further states that team cleaning tends to inhibit personal interaction between custodians and faculty, a characteristic of area cleaning. Lastly, NCES indicates that area cleaning generally results in cleaner facilities because a single custodian is responsible for an entire area, allowing him or her to become intimately familiar with the specific needs of the area. Team cleaning tends to be somewhat less expensive. WCSD currently uses the area cleaning method.

The implementation of a formal custodial procedure manual and training program would standardize cleaning and other custodial functions, thus reducing the time spent on custodial functions. Furthermore, formal procedures and training would aid the District in developing cleaning schedules, standardizing procedures, and improving familiarization with equipment, cleaning supplies, and appropriate cleaning procedures.

**R3.3** Warren CSD should formalize custodial procedures by establishing a standard operating manual to help increase efficiency and productivity. These procedures should specify the supplies to be used for each job duty, the frequency of job tasks, and the appropriate work steps. In addition to standardizing procedures, Warren CSD should complete annual job

performance evaluations and provide training, especially when the District obtains new equipment or establishes new procedures. As the District transitions to fewer school buildings with larger square footages, it should consider implementing the team cleaning method in an effort to improve efficiency and minimize equipment costs, while still maintaining clean facilities. If the District implements the team cleaning method, it should rotate duties to minimize employee burnout.

*Financial Implication:* If WCSD decides to purchase the ISSA training program manual, the cost is \$60 for non-members and \$45 for members. In addition, ISSA has several other training programs for custodial staff. These costs cannot be determined as they will depend on the actual level of training needed for WCSD staff and the amount of training the District decides to conduct in-house.

### *Work Orders and Preventative Maintenance*

- F3.4 Software is used by the Maintenance Department to process work orders, and keep track of scheduled preventive maintenance and labor hours for work completed. However, software system functions are not used to increase the efficiency of the work order process or to monitor supply costs and use. In addition, the Maintenance Department does not have formal procedures guiding the work order process. **Table 3-7** outlines the relevant features of the software and the functions used by the Maintenance Department. The Maintenance Department's current software application has the capability to track all inventory and assign costs to the materials used to complete each work order.

**Table 3-7: Maintenance Software Functions**

Software Features	Features in use at Warren City School District
<b>Equipment/ Preventive Maintenance Module:</b>	<b>Partially</b> – The Maintenance Department does not itemize the cost history of Preventative Maintenance (PM) projects. Costs are not assigned to labor or supplies and materials cost categories. However, the software coordinator generates a monthly report that tracks the type of materials used and the number of PM work orders completed by building.
<b>Demand Maintenance Module</b>	<b>Yes</b> – Preventive Maintenance (PM) is scheduled in increments of time, and PM work orders can be scheduled by start date or completion date. The system facilitates maintenance staff scheduling by viewing scheduled PM in advance. Reports can be generated to show the completion of scheduled PM.
<b>Inventory Module:</b>	<b>No</b> – The quantity and total cost of supplies and materials used to complete all maintenance work orders is not tracked and displayed. Only the inventory of preventive maintenance supplies is tracked. No reorder points have been established.
<b>Transaction Module:</b>	<b>No</b> – The quantity of preventive maintenance supplies and materials is not tracked and adjustments to maintenance inventory are not tracked.
<b>Work Order Module:</b>	<b>Partially</b> – The maintenance employees assigned to each work order are tracked and monthly reports are generated to monitor the number of completed work orders. However, total labor costs for each work order are not tracked and displayed on the work orders.
<b>Purchasing Module:</b>	<b>No</b> – The Maintenance Department does not use the software to generate electronic purchase orders. There is no link between this system and the treasurer’s Uniform School Accounting System (USAS). Therefore, purchase requisitions are done manually and can take several days (See <b>Purchasing Section</b> for a discussion on requisition processing).

**Source:** Maintenance Software Coordinator

According to the software supplier, the District can use the current maintenance software to do the following:

- 1) To link the software application to track all inventory on hand, and particular supplies and materials used to complete each work order.
- 2) To assign a cost to each inventory item. Track and display the cost of both labor, and supplies and materials on each work order.
- 3) To link purchase orders to a report generator to assist the Maintenance Supervisor in predicting and purchasing future departmental supply needs.

- 4) To establish reorder points for inventory items, and automatically generate requisitions from selected reorder points (see the **purchasing** section for automating the purchasing process).
- 5) To integrate the reorder points to automatically generate purchase orders that can be submitted to the Treasurer's Office for approval.

Hamilton CSD is in the process of implementing an electronic work order system using another software application, and expects to have the system operating by the end of 2005. It will also be using another software application to compliment the work order software that tracks inventory and materials costs. These software applications will enable Hamilton CSD to track Maintenance Department inventory, assign costs to each item in inventory, and display both labor cost and material cost on each completed work order.

Using all software features would allow the Maintenance Department to track the total cost of both labor and materials on each completed work order, and generally improve efficiency (e.g., reducing the time previously involved with manual purchasing processes). Additionally, establishing formal procedures for the work order process would provide a reference for staff to ensure all appropriate steps are completed.

**R3.4** The Maintenance Department should use all the functions of its work order software system to aid in tracking supply costs, monitoring work order completion, and identifying supply needs. This can be achieved by providing training to department staff from the software supplier. This training will also allow reports to be generated for decision making purposes. In addition, the Maintenance Supervisor should establish formal procedures for the work order process.

The Maintenance Supervisor and the Business Manager should work with the software provider to ensure maintenance software compatibility with the USAS software currently in use in the Treasurer's Office. This will assist the department in utilizing its purchasing module and submitting purchase requisitions electronically (see the purchasing section).

*Financial Implication:* The software supplier can assist the Maintenance Department with integrating the five main objectives outlined above during a three day training session. The three day on-site training at WCSD with one instructor would cost approximately \$4,800 plus travel.

## *Purchasing*

F3.5 The Custodial Department purchases its major cleaning chemicals in bulk from one supplier chosen through a competitive bid process. The cleaning chemical prices are valid through June 30, 2007. However, the Maintenance Department does not purchase a significant portion of its supplies and materials in bulk or through a consortium. Instead, separate materials lists are made for each work order, and maintenance employees purchase needed materials from local hardware stores using blanket purchase orders. As a result, the Maintenance Department may not be receiving the most competitive price for its supplies.

Although **Table 3-4** indicates that WCSD's purchased services, and supply and materials per square foot are comparable to the peer averages, the Maintenance Department could achieve cost savings on supplies and materials by purchasing in bulk. This could also provide more time for tradesmen to allocate to maintaining and repairing the facilities, rather than spending time purchasing supplies from local hardware stores.

**R3.5** The Maintenance Supervisor should join appropriate purchasing consortiums to provide access to additional competitive pricing. The Maintenance Supervisor should also compare pricing from consortiums and other suppliers, and consider purchasing supplies in bulk. Doing so would help the Maintenance Department take advantage of decreased prices. The responsibility for joining consortiums, comparing pricing, and purchasing supplies in bulk could be assigned to another appropriate employee (e.g., the Business Manager), depending on whether the District centralizes purchasing functions (see **F2.5** and **R2.5** in the purchasing section).

## *Warehouse Operations*

F3.6 The District has two full-time employees, a Manager and an Assistant Manager, working in the warehouse. The Warehouse Manager researches pricing for supplies and materials, and orders items to stock in the warehouse. The Assistant Warehouse Manager spends half of each workday supporting food service operations. Payment for these services comes from the District's food service fund. The Assistant Warehouse Manager makes weekly deliveries to the District's schools, and administration and maintenance buildings. A labor intensive methodology is used whereby all shipments from suppliers and deliveries to schools are manually counted.

In line with the recommendation in the 1999 Performance Audit to mark-up items to cover warehouse operational costs, the warehouse currently charges each department a 10 percent mark-up on the price received from suppliers on goods delivered to each department. This mark-up is applied to the salaries and benefits of warehouse staff in an attempt to make the warehouse a self-sufficient operation. The Warehouse Department



only sold approximately \$146,000 worth of inventory in FY 2004-05, which generated \$14,600 in charges. This only covers approximately 20 percent of the warehouse staff's salary and benefit costs. As a result, warehouse operations are not self-sufficient. In addition, at the close of the 2004-2005 school year, the warehouse inventory was valued at approximately \$290,000, exclusive of any food service commodities, which is two times the amount of inventory sold in FY 2004-05. This indicates that the warehouse has not isolated inventory categories that are slow moving, thereby resulting in maintaining excess inventory. However, the District could eliminate the warehouse and the need to maintain inventory by implementing just-in-time (JIT) methods.

According to the Rockford Consulting Group (RCG), which advises companies transitioning to JIT delivery systems, JIT techniques provide the cost effective production and delivery of only the necessary quality parts in the right quantity, and at the right time and place, while using a minimum of facility, equipment, material, and human resources. JIT techniques can be applied to the full cycle of procurement, manufacturing, and delivery. RCG further indicates that organizations that implement JIT techniques experience improved work place organization and visibility of operations. Furthermore, material-related costs are reduced by decreasing the number of suppliers a company deals through the use of long-term contracts. This eliminates the need to count individual parts, reduces order scheduling, eliminates expediting, simplifies receiving systems, and eliminates inspection at receiving, most unpacking, stocking of inventory, and excess material spoilage.

Two of the peers do not maintain warehouses and have systems in place whereby suppliers deliver directly to district locations. According to the Hamilton Maintenance Supervisor, the district has no more than a two week supply of operational items on hand at any one time.

In addition to marking-up items, the 1999 Performance Audit recommended that the District eliminate the warehouse and investigate the possibility of using the warehouse area as a shipping/receiving area or switch to a system of direct deliveries to District buildings, if the operational costs of the warehouse exceed the savings associated with volume purchases. The District response to the audit indicated it must first review the cost benefit of the warehouse before taking any other action. To date, this review has not taken place. Nevertheless, along with the cost savings associated with the elimination of the warehouse through JIT, the District may be able to negotiate JIT agreements with prices that are similar to, or potentially more competitive than, prices related to volume purchases. Furthermore, the District could still purchase supplies in bulk from suppliers through JIT, and order the quantities of the pre-purchased supplies to be delivered by the supplier directly to the buildings as needed (see **R3.5** for bulk purchasing).

**R3.6** The District should consider discontinuing the current warehouse operation for all items except food service commodities that require refrigeration, and begin the transition to a JIT direct delivery system. The District should accordingly reduce at least one warehouse FTE, and convert the current warehouse building into a shipping and receiving area for deliveries that cannot be made directly to District buildings. If the District decides to maintain one of the warehouse FTEs, it should first evaluate and determine the specific duties that person would perform. For example, considering that the food service fund's revenues exceeded expenditures by an average of more than \$81,000 over the last three fiscal years, and based on the relatively low food service staffing levels, the District could assign additional staff support to food service operations. Furthermore, the District should determine if its remaining inventory meets departments' needs and distribute it accordingly to ensure it is exhausted, or sell the excess inventory to suppliers.

Moving towards a system stressing routine replenishment rather than warehousing is a cost-effective method of supplying District departments with goods. Additionally, by implementing a JIT system, the District would eliminate the manual system used to track inventory. A direct JIT method of acquiring supplies and materials would be easier to coordinate as the District is reducing the number of school buildings from 13 to 5 through the OSFC project.

*Financial Implication:* The salary and benefits for the warehouse staff was approximately \$94,000 for two positions in FY 2004-05. By eliminating one position, the District could realize annual savings of approximately \$47,000 in salaries and benefits.

### *Energy Management*

F3.7 The District has been proactive in implementing more efficient energy management programs, such as:

- Using a \$500,000 OSFC grant received in 2003 to inspect and repair 428 unit-ventilators throughout the District and replace a boiler.
- Centralizing control for building functions that regulate heat and ventilated air flow. All functions are monitored centrally by the Maintenance Supervisor, and cannot be manually changed within each room.
- Establishing temperatures for the heating system between 68 and 72 degrees, and the cooling system at 78 degrees.

Although the District has implemented improvements, **Table 3-4** shows that WCSD exceeded the peer average for utility costs per square foot and had the second highest utility cost per square foot when compared to each peer. This can be attributed to the lack

of formal policies and procedures outlining energy efficient practices, not providing training to staff, and not participating in the Ohio Schools Council (OSC) consortium for natural gas.

The *School District Energy Manual* (1998), published by the Association of School Business Officials International, recommends that temperature settings be centrally controlled, and allow a variance of only one to two degrees for manual adjustments. Additionally, the *School District Energy Manual* recommends the following energy saving techniques:

- Turning off lights when a classroom is not in use, and labeling multiple switches to indicate light fixtures they operate;
- Instructing staff to keep doors closed whenever possible, and minimizing exit and entry when cooling a room in order to maintain steady room temperatures;
- Reducing heat gain by turning out the lights and shutting off equipment, such as overhead projectors and computers, which tend to emit heat;
- Encouraging staff, faculty and students to use blinds as a means of controlling temperature. Closing blinds on the south and west sides of buildings keeps them cooler in the summer, and opening blinds helps warm the buildings in the winter on sunny days; and,
- Developing policies that indicate water should not be kept running in the restrooms.

According to the Princeton Energy Resources International publication *School Operations and Maintenance: Best Practices for Controlling Energy Costs* (2004), researchers found that the single most important energy cost management tool is a well conceived district energy policy that defines clear expectations for building performance. Without visible, clearly defined objectives and district-wide operational standards, administrators will have great difficulty improving practices. As such, the development of this policy must be a high priority. To supplement the development of a policy, the program manager will need to develop a much more detailed and technical reference that provides specific guidance to building staff. This publication also indicates that the following topics should be included in a building systems policy and procedures manual:

- Heating/cooling temperatures and hot water;
- Ventilation control and exhaust fans;
- Off hour building scheduling;
- Lighting – illumination levels and lighting control;

- Control of computers, vending machines and other plug connected loads;
- Vacation and nighttime shutdown procedures;
- Scheduled maintenance and record keeping; and
- Energy system repair – work orders and administrative process.

Rebuild America's Energy Smart Schools program from the U.S. Department of Energy reports that most schools could save 25 percent of high energy costs by being smart about the use of energy. Schools have a range of options for being smarter about energy, such as behavioral changes (e.g., turning off computers at night and on weekends), operations and maintenance improvements (e.g., turning down thermostats), and building renovations or retrofits.

The District purchases its electricity through the Ohio Schools Council's Energy for Education II Purchasing Agreement. This contract is renewed annually, and the effective dates of the current agreement are from January 2005 through December 2008. The OSC consortium offers competitive discounted electricity prices from the electricity providers to the school districts.

The District purchases its natural gas from another consortium made up of 35 school districts. According to current gas invoices provided by the District, there are 16 separate educational buildings eligible to purchase gas through the OSC program. Any of the District's educational related buildings using three million cubic feet of natural gas annually can qualify for the OSC program. Based on an analysis of the 2004-2005 heating season, spanning October 2004 through March 2005, the only schools that would not meet the three million cubic feet requirement would be Lincoln, Washington, and Alden Elementary Schools. OSC's average price during this heating season was 28.9 percent lower than the average price received from the current consortium.

By establishing formal policies and procedures, training staff on energy efficient techniques, and participating in the OSC for natural gas, the District could decrease its utility costs.

- R3.7** WSCD administration should establish formal policies and procedures outlining energy efficient practices that District staff should follow to help minimize energy costs, and provide appropriate training in energy efficient techniques. In addition, the District should continue to participate in the OSC purchasing program for electricity and consider participating in OSC's natural gas purchasing program for the 2006-07 school year.

*Financial Implication:* Since the District has recently upgraded its energy management systems through OSFC, the District may not realize the full 25 percent decrease in utility expenditures reported by the Rebuild America's Energy Smart Schools program. However, if the District was able to reduce utility costs by 10 percent by implementing

the aforementioned suggestions, it would save approximately \$150,000 annually in total utility costs. This would result in utility expenditures per square foot of \$1.44, which would still be higher than the peer average (\$1.39) and AS&U medians (\$1.35 and \$1.37) (see **Table 3-4**).

## Financial Implication Summary

The following table presents a summary of the estimated annual cost savings and implementation costs discussed in this section. For purposes of this table, only recommendations with quantifiable impacts are included.

### Summary of Financial Implications

<b>Recommendation</b>	<b>Estimated Annual Cost Savings</b>	<b>Estimated Implementation Costs (One-Time)</b>
<b>R3.1</b> Reduce Custodial Staffing	\$268,000	
<b>R3.3</b> Purchase ISSA Manual		\$60
<b>R3.4</b> Provide Software Training		\$4,800
<b>R3.6</b> Reduce Staffing in Warehouse	\$47,000	
<b>R3.7</b> Reduce Utility Costs	\$150,000	
<b>Total</b>	<b>\$465,000</b>	<b>\$4,860</b>

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# Food Service

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## Background

The food service section focuses on food service operations of the Warren City School District (Warren CSD, WCSD or the District). The objective is to analyze the financial condition of the Food Service Department and ascertain overall efficiency. The following questions were used to guide the initial assessment of the District's food service operations:

- Do food service operations generate enough revenue to cover expenditures?
- Does the District's food service operation efficiently serve the student and staff population, based on a comparison of key operational indicators to peer districts?

Because the food service operation has historically generated enough revenue to cover expenditures and is generally efficient and cost-effective when compared to peers, no further assessments were conducted on the District's food service operations (see ensuing analyses).

### *Organizational Structure and Function*

Warren CSD's Food Service Department consists of 56 employees, including the Food Service Supervisor, Assistant Food Service Supervisor, Secretary, Assistant Warehouse Manager, four Head Cooks, 10 Cooks/Bakers, and 38 Helpers/Cashiers. The Food Service Supervisor is responsible for oversight of the food service program, including monitoring revenues and expenses, menu development, purchasing, and recordkeeping as required by the Ohio Department of Education (ODE). **Table 4-1** shows the District's staffing by building.

**Table 4-1: Warren CSD Staffing by Building as of September 2005**

School	Enrollment	Head Cooks	Cook / Baker			Helper			Total Employees / Building <sup>1</sup>
		Hours	Hours			Hours			
		6.00 - 8.00	6.50	6.00	5.50	4.00 - 5.00	3.00 - 3.75	> 3.00	
Harding High	1,720	1		1		1	2	3	8
Reserve Middle	939	1	2	2	1	4	1	1	12
HB Turner Middle	494	1	1	1		2		1	6
East Middle	567	1	1	1		2	1	1	7
Washington Alternative	214						1	2	3
Alden Elementary	439						1	1	2
Emerson Elementary	366						1	1	2
Garfield Elementary	311						1	1	2
Horris Mann Elementary	303						1	1	2
Jefferson Elementary	244						1	1	2
Laird Elementary	315						1	1	2
Lincoln Elementary	239						1	1	2
McGuffey Elementary	377						1	1	2
<b>Totals</b>	<b>6,528</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>1</b>	<b>9</b>	<b>13</b>	<b>16</b>	<b>52</b>

Source: WCSD Food Service Supervisor

<sup>1</sup> Excludes the food service supervisor, assistant food service supervisor, secretary, and the assistant warehouse manager positions. These totals only include food service employees preparing and serving the meals in each school.

### *Summary of Operations*

The District's food service administration and warehouse are housed in Western Reserve Middle School. A cooking kitchen is located in each of the three middle schools. For the FY 2005-06 school year, all students at Warren Harding High School have a twenty minute lunch period. Students were not given the option to purchase hot meals. Instead, high school students could sign up for sack lunches during the breakfast period and have them delivered to their classrooms by 10:50 am. Students also have the option of bringing a lunch from home, but all students eat lunch in their classrooms between 11:05 am and 11:25 am. The sandwich sack lunches are prepared daily at Western Reserve Middle School and transported to the high school, and the salad sack lunches are prepared daily at the high school.

WCSD contracts with a food service supplier to assemble and deliver prepared lunches daily to the elementary schools. The number of prepared lunches to be delivered to each school is submitted to the supplier two days in advance. The delivered lunches consist of an entrée and fruit. The entrees are warmed up in the ovens at each school. All breakfast items and the remaining lunch items are prepared by the school kitchens.

During the course of this performance audit, WSCD decided to start using the high school kitchen and cafeteria facilities to serve hot lunches when school started in January, 2006. **Table 4-2** shows the original staffing levels and the additional staffing impact of this decision compared to the peers.

**Table 4-2: Full-Time Equivalent and Total Labor Hours**

School District	Positions	Daily Labor Hrs
Warren CSD-Sept. 2005	52.0	196.8
Warren CSD-Jan. 2006	55.0	209.3
Barberton CSD	44.0	232.5
Hamilton CSD	98.0	551.3
Zanesville CSD	49.0	245.0
<b>Peer Average</b>	<b>63.7</b>	<b>342.9</b>

Source: WSCD and the peer food service supervisors.

**Table 4-2** shows that WSCD's food service operation uses the fewest daily labor hours when compared to the peers, even with the additional service provided at the high school. See **Table 4-5** for a more detailed analysis of staffing levels.

### *Financial Data*

Food service is organized within the District as an enterprise fund. The operation is intended to function in a manner similar to a private sector business, relying on charges for services to support operational costs. **Table 4-3** shows the District's revenues, expenditures, and other financing activity within the food service fund from FY 2002-03 through FY 2004-05.

**Table 4-3: WCSD Food Service Fund FY 2002-03 through FY 2004-05**

Line Items	FY 2002 - 03		FY 2003 - 04		FY 2004 - 05	
	\$ Total	% of Total	\$ Total	% of Total	\$ Total	% of Total
Student Charges	\$452,241	21.80%	\$455,390	22.75%	\$416,677	18.44%
Miscellaneous	\$31,691	1.53%	\$31,200	1.56%	\$17,516	0.77%
State Grants-in-Aid	\$100,836	4.86%	\$108,604	5.43%	\$88,085	3.90%
Federal Grants-in-Aid	\$1,489,731	71.81%	\$1,406,655	70.27%	\$1,737,962	76.89%
<b>Total Revenue</b>	<b>\$2,074,499</b>	<b>100.00%</b>	<b>\$2,001,849</b>	<b>100.00%</b>	<b>\$2,260,240</b>	<b>100.00%</b>
Salaries	\$662,767	34.49%	\$545,619	26.23%	\$653,880	31.29%
Retirement and Insurance	\$321,139	16.71%	\$357,470	17.18%	\$272,897	13.06%
Purchased Services	\$102,710	5.34%	\$127,492	6.13%	\$111,447	5.33%
Supplies and Materials	\$807,266	42.00%	\$1,007,256	48.42%	\$1,026,261	49.11%
Capital Outlay	\$27,138	1.41%	\$40,170	1.93%	\$23,751	1.14%
Other Objects	\$818	0.04%	\$2,412	0.12%	\$1,669	0.08%
<b>Total Expenditures</b>	<b>\$1,921,839</b>	<b>100.00%</b>	<b>\$2,079,814</b>	<b>100.00%</b>	<b>\$2,089,904</b>	<b>100.00%</b>
<b>Revenues Over (Under) Expenses</b>	<b>\$152,660</b>		<b>(\$77,965)</b>		<b>\$170,335</b>	
Net Transfers/ Advances	\$0		\$0		\$0	
<b>Beginning Fund Balance</b>	<b>\$1,096,612</b>		<b>\$1,249,272</b>		<b>\$1,171,307</b>	
<b>Ending Fund Balance</b>	<b>\$1,249,272</b>		<b>\$1,171,307</b>		<b>\$1,341,642</b>	
<b>Reserve for Encumbrances</b>	<b>\$176,806</b>		<b>\$146,673</b>		<b>\$255,905</b>	

Source: District 4502s

**Table 4-3** indicates that WCSD's food service fund did not experience deficits in FY 2002-03 through FY 2004-05. **Table 4-3** shows a deficit for FY 2003-04, but this is a result of reimbursements for May and June of 2004 not being received in time to include in the FY 2003-04 4502 report. The reimbursement was received in July of the following fiscal year, covering the deficit indicated in FY 2003-04. At the end of FY 2004-05, the District's fund balance was approximately \$1.3 million, which represents over half of its FY 2004-05 expenditures. As a result, the District has built up a significant surplus that could be used to address unexpected or one-time events affecting food service operations in future years.

**Table 4-3** also illustrates spending history for food services by line item. Explanations for significant variances are as follows:

- *Miscellaneous Revenue decreased by 43.9 percent from FY 2004 to FY 2005:* This is due to the principal at Harding High School limiting the use of vending machines. However, as indicated in **Table 4-3**, miscellaneous revenues historically comprise an immaterial percentage of the District's total revenues.
- *Federal Grants-in-Aid increased by 23.6 percent from FY 2004 to FY 2005:* As stated previously, this is partially due to the receipt of revenues attributable to FY 2003-04 in FY

2004-05. Also, the federal reimbursement rate per meal increased by \$0.05 for each free and reduced price meal served.

- *State Grants-in-Aid decreased by 18.9 percent from FY 2004 to FY 2005:* According to ODE's Office of Health, Safety & Nutrition, the amount of funds available for state reimbursement decreased from FY 2004 to FY 2005. State meal reimbursement to the District varies from year to year, and there is no per meal reimbursement rate like the Federal Grants-in-Aid.
- *Salaries decreased 17.7 percent from FY 2003 to FY 2004, and then increased 19.8 percent from FY 2004 to FY 2005:* The decrease in FY 2004 is due to a reduction in staff after two elementary school closings. There was also a notable decrease in absenteeism during FY 2004, reducing substitute and sick leave pay costs. The increase in FY 2005 was due to the negotiated increase in salaries stated in the collective bargaining agreement. Also, food service staff used more personal days in FY 2005 than in FY 2004 rather than choosing to be paid for unused personal days, which increased substitute costs. Also, some food service workers use personal days instead of calling in sick in order to maintain perfect attendance. For every 60 days of perfect attendance, a food service worker earns an additional day of pay. Additionally, the healthcare "opt out" program contributed to the salary increase in FY 2004-05 (see below).
- *Retirement and Insurance increased 11.3 percent during FY 2004, and then decreased by 23.7 percent during FY 2005:* The increase of 11.3 percent was due to an increase in the cost of health insurance for food service employees. The District also offered an "opt out" health insurance program beginning in FY 2005, enabling employees to "opt-out" of the district's health insurance program and receive a portion of the benefits in the form of wages. A total of 16 employees chose to participate, thereby contributing to the decrease in retirement and insurance costs, and the increase in salaries for FY 2004-05.
- *Purchased Services increased by 24.1 percent during FY 2004, and then decreased by 12.6 percent in FY 2005:* The increase in FY 2004 is a result of equipment repair and increases in the processing fee for commodities handled by the food service provider. No repairs were needed in FY 2005, which partially accounts for the decrease in expenditures. The District renewed the contract with its food service supplier to provide prepared meals at a decreased rate. The rate was lowered from \$1.14 to \$1.11 per meal during FY 2005, further contributing to the overall decrease in purchased service expenditures for FY 2005.
- *Supplies and Materials increased 24.8 percent during FY 2004:* This is due to the District changing the way it serves its meals. Specifically, it began using disposable trays, and packing breakfasts and lunches in paper bags. These changes also resulted in the District having more trash, which increased trash pickup costs in the District. However, over time, disposable items should allow the District to reduce other costs (e.g., purchased services and

capital outlay) because they do not require the labor, water, and energy use associated with cleaning and maintaining equipment (e.g., dishes). Additionally, the District minimizes equipment replacement costs by using disposable items.

- *Capital Outlay increased by 48.0 percent during FY 2004:* The Food Service Department purchased new equipment including van communication equipment, hand held radios for office managers, a convection oven, a gas range, cash registers, cafeteria tables, new office computers, and other new kitchen appliances.

As meal prices affect operating revenue, **Table 4-4** displays historical meal prices from the 2002-2003 through the 2005-2006 school years for WCSD and the peers.

**Table 4-4: Peer Comparison of Lunch Prices**

District	Warren		Barberton		Hamilton		Zanesville		Peer Average	
School	Breakfast	Lunch	Breakfast	Lunch	Breakfast	Lunch	Breakfast	Lunch	Breakfast	Lunch
<i>FY 02/03</i>										
Elementary	Free	\$1.35	\$1.00	\$1.80	Free	\$1.85	\$0.80	\$1.75	<b>\$0.90</b>	<b>\$1.80</b>
Middle	Free	\$1.50	\$1.00	\$2.15	\$0.40	\$2.00	\$0.80	\$1.85	<b>\$0.73</b>	<b>\$2.00</b>
High	\$0.75	\$1.50	\$1.00	\$2.15	\$0.40	\$2.25	\$0.80	\$1.85	<b>\$0.73</b>	<b>\$2.08</b>
Adults	\$0.75	\$2.00	\$1.50	\$2.60	N/A	\$2.50	\$1.00	\$2.25	<b>\$1.25</b>	<b>\$2.45</b>
<i>FY 03/04</i>										
Elementary	Free	\$1.35	\$1.00	\$1.85	Free	\$2.00	\$0.80	\$1.75	<b>\$0.90</b>	<b>\$1.87</b>
Middle	Free	\$1.50	\$1.00	\$2.20	\$0.75	\$2.15	\$0.80	\$1.85	<b>\$0.85</b>	<b>\$2.07</b>
High	\$0.75	\$1.50	\$1.00	\$2.20	\$0.75	\$2.25	\$0.80	\$1.85	<b>\$0.85</b>	<b>\$2.10</b>
Adults	\$0.75	\$2.00	\$1.50	\$2.65	N/A	\$2.50	\$1.00	\$2.25	<b>\$1.25</b>	<b>\$2.47</b>
<i>FY 04/05</i>										
Elementary	Free	\$1.35	\$1.25	\$1.90	Free	\$2.00	\$0.80	\$1.75	<b>\$1.03</b>	<b>\$1.88</b>
Middle	Free	\$1.50	\$1.25	\$2.25	\$0.75	\$2.15	\$0.80	\$1.85	<b>\$0.93</b>	<b>\$2.08</b>
High	\$0.75	\$1.50	\$1.25	\$2.25	\$0.75	\$2.25	\$0.80	\$1.85	<b>\$0.93</b>	<b>\$2.12</b>
Adults	\$0.75	\$2.00	\$1.50	\$2.75	N/A	\$2.50	\$1.00	\$2.25	<b>\$1.25</b>	<b>\$2.50</b>
<i>FY 05/06</i>										
Elementary	Free	\$1.35	\$1.25	\$1.95	Free	\$2.10	\$0.80	\$1.85	<b>\$1.03</b>	<b>\$1.97</b>
Middle	Free	\$1.50	\$1.25	\$2.30	\$0.75	\$2.25	\$0.80	\$1.95	<b>\$0.93</b>	<b>\$2.17</b>
High	\$0.75	\$1.50	\$1.25	\$2.30	\$0.75	\$2.35	\$0.80	\$1.95	<b>\$0.93</b>	<b>\$2.20</b>
Adults	\$0.75	\$2.00	\$1.50	\$2.80	N/A	\$2.60	\$1.00	\$2.25	<b>\$1.25</b>	<b>\$2.55</b>

Source: WCSD and peer food service supervisors

As seen in **Table 4-4**, WCSD is the only district that did not increase its meal prices the last four years, but the food service fund has remained self-sufficient (see **Table 4-3**). WCSD offers free breakfast to all elementary and middle school students due to a high percentage of the District’s students meeting family income requirements established by the Federal Government to receive free meals. WCSD’s elementary lunch prices are \$0.62 or 31.5 percent lower than the peer

average, and its middle school lunch prices are \$0.67 or 30.9 percent lower than the peer average for the 2005-06 school year. In addition, for the 2005-06 school year, WCSD's breakfast price is \$0.18 (19.4 percent) lower, and its lunch price is \$0.70 (31.8 percent) lower than the peer average for high school students.

WCSD has three exceptions to these prices. Alden, Horace Mann, and Jefferson Elementary Schools offer both free breakfast and free lunch to all students in these buildings because of the high percentage of students attending these schools whose families meet income requirements mentioned previously. Eighty percent of the students attending these three schools qualify for free meals, and sufficient participation rates are maintained to operate the meal programs successfully from State and federal reimbursements without student charges (see **Table 4-3**). In addition, according to the Food Services Supervisor, WCSD plans to offer free meals to all students in the first of the newly constructed K-8 schools. This pilot program, approved by ODE, will offer free meals to all students and allow the District to determine if meal participation rates are high enough to operate the service in the same manner when its other new schools are constructed. When the OSFC program is completed, the goal of the Food Service Department is to have cooking kitchens in each building offering free meals to every student, while covering operational costs through state and federal reimbursement (see *Issue for Further Study*).

### *Operating Statistics*

**Table 4-5** shows revenues, expenditures, and staffing levels based on the number of students and meals served for WCSD and the peers.

**Table 4-5: FY 2004-05 Revenues, Expenditures and Staffing Levels**

	Warren CSD	Barberton CSD	Hamilton CSD	Zanesville CSD	Peer Average
<b>Revenue and Expenditure Ratios per Student</b>					
<b>Total District Students</b>	6,528	4,217	9,215	4,183	5,872
<b>Operating Revenue per Student</b>	\$63.83	\$151.90	\$135.01	\$122.92	\$136.18
<b>Non-Operating Revenue per Student</b>	\$282.41	\$242.39	\$232.06	\$274.90	\$244.71
<b>Total Revenue per Student</b>	<b>\$346.24</b>	<b>\$394.29</b>	<b>\$367.07</b>	<b>\$397.82</b>	<b>\$380.89</b>
<b>Salaries per Student</b>	\$100.17	\$155.12	\$141.19	\$166.79	\$150.60
<b>Fringe Benefits per Student</b>	\$41.80	\$85.40	\$57.27	\$105.37	\$75.42
<b>Purchased Services per Student</b>	\$17.07	\$30.04	\$22.37	\$5.33	\$20.16
<b>Supplies and Materials per Student</b>	\$157.21	\$146.39	\$157.78	\$147.85	\$152.69
<b>Capital Outlay per Student</b>	\$3.64	\$0.12	\$0.36	\$1.56	\$0.59
<b>Other per Student</b>	\$0.26	\$1.54	\$0.31	\$0.00	\$0.53
<b>Total Expenditure per Student</b>	<b>\$320.14</b>	<b>\$418.61</b>	<b>\$379.27</b>	<b>\$426.91</b>	<b>\$400.00</b>
<b>Total Gain or (Loss) per Student</b>	<b>\$26.09</b>	<b>(\$24.31)</b>	<b>(\$12.20)</b>	<b>(\$29.09)</b>	<b>(\$19.11)</b>
<b>Revenue and Expenditure Ratios per Meal</b>					
<b>Total Annual Meal Equivalents Served <sup>1</sup></b>	787,220	594,932	1,185,972	600,142	793,682
<b>Total Operating Revenue per Meal</b>	\$0.53	\$1.08	\$1.05	\$0.86	\$1.01
<b>Total Non-Operating Revenue per Meal</b>	\$2.34	\$1.72	\$1.80	\$1.92	\$1.81
<b>Total Revenue per Meal</b>	<b>\$2.87</b>	<b>\$2.79</b>	<b>\$2.85</b>	<b>\$2.77</b>	<b>\$2.82</b>
<b>Salaries per Meal</b>	\$0.83	\$1.10	\$1.10	\$1.16	\$1.11
<b>Fringe Benefits per Meal</b>	\$0.35	\$0.61	\$0.44	\$0.73	\$0.56
<b>Purchased Services per Meal</b>	\$0.14	\$0.21	\$0.17	\$0.04	\$0.15
<b>Supplies and Materials per Meal</b>	\$1.30	\$1.04	\$1.23	\$1.03	\$1.13
<b>Capital Outlay per Meal</b>	\$0.03	\$0.00	\$0.00	\$0.01	\$0.00
<b>Other per Meal</b>	\$0.00	\$0.01	\$0.00	\$0.00	\$0.00
<b>Total Expenditure per Meal</b>	<b>\$2.65</b>	<b>\$2.97</b>	<b>\$2.95</b>	<b>\$2.98</b>	<b>\$2.96</b>
<b>Total Gain or (Loss) per Meal</b>	<b>\$0.22</b>	<b>(\$0.17)</b>	<b>(\$0.09)</b>	<b>(\$0.20)</b>	<b>(\$0.14)</b>
<b>Participation Rates and Staffing Ratios</b>					
<b>Participation Rate</b>	77.48%	81.42%	77.87%	86.79%	82.03%
<b>Average Meals Served per Day</b>	4,498.40	3,419.15	7,017.59	3,489.20	4,623.39
<b>Daily Meals Served per Labor Hour</b>	<b>22.86</b>	<b>14.71</b>	<b>12.73</b>	<b>14.24</b>	<b>13.48</b>
<b>Total Students per Labor Hour</b>	<b>33.18</b>	<b>18.14</b>	<b>16.72</b>	<b>17.07</b>	<b>17.12</b>

Source: District 4502 reports, WCSO, peers, and ODE MR Reports

<sup>1</sup> Total meal equivalents served was derived according to the School Foodservice Management for the 21<sup>st</sup> Century (Fifth Edition, 1999). More specifically, one lunch, three breakfasts, and \$3 in a la care sales each equal one meal equivalent.



**Table 4-5** shows that WCSD's Food Service Department operated at a profit of \$26.09 per student and \$0.22 per meal during the 2004-05 school year. In contrast, the peer districts operated at an average loss of \$19.11 per student and \$0.14 per meal. Operating revenue per student and per meal are lower while non-operating revenue per student and per meal are higher compared to the peer districts, due to WCSD having a high percentage of students qualifying and participating in the free and reduced price meal programs. When measured on both a per meal and per student basis, the District's total expenditures are lower than each peer district.

**Table 4-5** also illustrates that the District's salaries and benefits per student and per meal ratios are significantly lower than the peers, which is primarily due to the District's ability to operate with much lower staffing levels. More specifically, WCSD's serves 70 percent more meals per labor hour than the peer districts. In addition, WCSD's total students per labor hour ratio is 93 percent higher than the peer average. When including the additional labor hours for serving hot lunches at the high school, WCSD's ratios of students and meals per labor hour (31.2 and 21.5) are still significantly higher than the peers. Furthermore, the District should experience an increase in the number of meals served by offering hot lunches at the high school. **Table 4-5** also shows that the District's ratios of purchased service expenditures per student and per meal, which include the contract costs related to its supplier assembling and delivering prepared lunches daily to the elementary schools, are both lower than two of the three peer districts.

Although the District purchases its food service supplies and materials from a consortium to maximize its buying power, the District's supplies and materials expenditures per student and per meal are higher than the peer averages. This is primarily due to the use of disposable items, which the District began using in FY 2004. While using disposable items increases the District's expenditures for supplies and materials, it could minimize and avoid other costs related to maintaining traditional equipment. For example, the use of disposable items allows WCSD to avoid the labor costs associated with washing dishes and reduces the capital outlay and energy expenditures associated with maintaining, repairing, and operating dishwashers and other related equipment. Hamilton CSD also uses a high percentage of disposable items, resulting in a similar level of supplies and materials per student and per meal when compared to WCSD. Barberton CSD and Zanesville CSD confirmed lower use of disposable items when serving meals. Although Barberton CSD uses disposable silverware district-wide, non-disposable trays are washed daily at each school. Zanesville CSD only uses disposable items occasionally at the end of the last serving period to minimize cleanup time and overtime hours charged by food service employees. Nevertheless, taking measures to improve the purchasing process could help the District control and potentially reduce future supply and material costs (see the **purchasing** and **facilities** sections).

As displayed in **Table 4-5**, the District's overall participation rate is lower than the peer average. This is due to the low meal participation rate (20.7 percent) at the high school. High school students were only offered cold lunches during FY 2005, which likely contributed to the low

meal participation rate. However, the Food Service Department began serving hot lunches in January 2006 in an effort to increase student meal participation.

### *Noteworthy Accomplishments*

As indicated in the preceding analyses, WCSD's Food Service Department is operating efficiently and cost-effectively, enabling it to maintain a positive fund balance in the food service fund. As a result, the District does not have to subsidize food service operations from the General Fund. The District is spending much less per student and per meal served to operate its food service program, and its staffing levels are significantly lower when compared to the peers. In addition, the District actively pursues identification of eligible students for the free and reduced meal prices offered by the National School Lunch Program, enabling it to maintain the same meal prices since 2001. Furthermore, the meal prices are lower than the peers.

### *Issues Requiring Further Study*

The following issue was noted during the review of food services that was outside the scope of this performance audit:

- **OSFC Project:** WCSD is in the process of constructing five new schools. There will be four K-8 schools and one high school. As part of the new construction, the Food Service Department is planning on cooking kitchens in each of the newly constructed schools. According to the Food Service Supervisor, WCSD's staffing levels after the construction will be 40 positions, yielding 211 hours per day. Because this is only slightly higher than the current total labor hours (209.3), the District would still be performing at a high efficiency level when compared to the peer districts (see **Table 4-5**). However, the District has the opportunity to implement a centralized kitchen to serve the five newly constructed schools. A centralized kitchen would help decrease the labor hours needed to prepare meals at each school and would decrease the overhead and utility costs associated with operating a cooking kitchen at each of the five newly constructed schools. On the other hand, the District would need to determine the process and costs of delivering prepared meals to the remaining schools, including the use of its current food service supplier. Therefore, WCSD should review the impact of the OSFC project on food service operations, and carefully weigh the costs and benefits of various options in making its final decision.



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# Risk Management

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## Background

This section of the performance audit focuses on Warren City School District's (Warren CSD, WCSD or District) risk management function related to insurance coverage. The following question was used as to guide the assessment of Warren CSD's insurance coverage:

- Are the District's coverage levels and corresponding costs for general liability insurance, building insurance, bus insurance, and property insurance similar to the peers and other standards?

### *Summary of Operations*

WCSD Policy 8710 acknowledges the Warren Board of Education's (Board) responsibility under law to keep all insurable property insured for a variety of coverages. The policy also outlines the bidding process. WCSD Administrative Guideline 8710 supplements policy 8710 and specifies that the Office of the Superintendent is responsible for claims processing. WCSD Policy 7430 notes that the Superintendent is responsible for maintenance of safety standards in facilities to prevent accidents and to minimize their consequences. WCSD Administrative Guideline 7430 points out that the Executive Director of Business Operations (Business Manager) annually reviews facility safety plans. The Executive Director of Business Operations position is in the Office of the Superintendent.

WCSD is a member of the Ohio Schools Council (OSC) which provides a variety of programs/services to its 80 plus member districts as it pursues its mission statement "to maximize members' dollars through cooperative purchasing." One of the programs offered is the "Property, Fleet and Liability Insurance Program" that includes special rates and risk management services. OSC currently uses two preferred agencies to provide insurance coverage. OSC will be seeking competitive proposals for this program in 2006, to become effective July 1, 2006. OSC also retains an insurance consultant as part of its risk management services. For the 2003-04 school year, WCSD participated in OSC's insurance program. However, since the 2004-05 school year, the District has been using a local insurance agency.

**Table 5-1** compares WCSD's current insurance coverage to minimum standards established by OSC's insurance consultant.

**Table 5-1: FY 2004-2005 Insurance Coverage Comparison**

COVERAGE	Minimum Standards	Current Coverage Levels
1. Property <ul style="list-style-type: none"> <li>▪ Limit</li> <li>▪ Deductible</li> <li>▪ Extra Expense</li> <li>▪ Back-Up of Sewers &amp; Drains</li> <li>▪ Property covered includes: Bleachers, scoreboards, play-ground equip., concession stands, press boxes, dugouts, underground pipes, flucs, drains, walkways, retaining walls, fences, foundations, patios, pilings, bridges</li> <li>▪ Off Premises Service Interruptions – including power lines</li> <li>▪ Paved Surfaces</li> <li>▪ Pollution Clean-up</li> <li>▪ Business Income</li> </ul>	Blanket \$5,000 \$500K/Location \$50,000 Yes  \$25,000  \$100,000 \$250,000 \$1MM	Blanket \$5,000 \$300K/Location \$25,000 Yes, Includes: Fences, lighting, antennac, signs, bleachers, playgrounds, scoreboards, grandstands  \$50,000  \$100,000 \$250,000 \$1MM
2. Fleet <ul style="list-style-type: none"> <li>▪ Limit</li> <li>▪ Uninsured Motorist Limit</li> <li>▪ Deductible – Comp./Collision</li> <li>▪ Liability Deductible</li> <li>▪ Fellow Employee Exclusion</li> </ul>	\$1MM \$50,000 \$250/\$500 None Deleted	\$1MM \$50,000 \$1,000/\$1,000 None Waives Exclusion (Deleted)
3. General Liability <ul style="list-style-type: none"> <li>▪ Sexual Abuse/Molestation</li> <li>▪ Deductible</li> <li>▪ Products &amp; Completed Operations</li> <li>▪ Personal &amp; Advertising Injury</li> <li>▪ Asbestos Liability Defense Fees</li> </ul>	\$1MM OCC. <sup>1</sup>  \$1MM OCC. <sup>1</sup> \$2,500 Law Include Include \$50,000	Per Location: \$1MM (OCC. <sup>1</sup> ) 2MM (Aggregate) \$1MM Each Loss/Aggregate Limit Varies on Incident \$2MM \$1MM \$50,000
4. School Leaders Professional Liability <ul style="list-style-type: none"> <li>▪ Employment Practices</li> <li>▪ Deductible</li> </ul>	\$1MM C-M <sup>1</sup>  Required \$2,500	\$1MM/Each Wrongful Act & Aggregate-C-M <sup>1</sup> Included \$2,500
5. Ohio Stop Gap/Employer's Liability	\$1MM	\$1MM/Loss-\$2MM Aggregate
6. Crime <ul style="list-style-type: none"> <li>▪ Limit – Employee Dishonesty</li> <li>▪ Cash Inside &amp; Outside</li> </ul>	\$50,000 \$10,000	\$5,000 \$15,000
7. Umbrella/Excess <ul style="list-style-type: none"> <li>▪ Extend over Sexual Abuse</li> <li>▪ Extend over Police/Law Enf.</li> <li>▪ Extend over Errors &amp; Omissions and School Leaders Professional/ Auto &amp; GL</li> </ul>	\$2MM Yes Yes Yes	\$6MM Yes Not Included Yes
8. Terrorism – All Lines	Include	Not Included

Source: Ohio School Council, WCSD

<sup>1</sup> OCC refers to occurrence, and C-M refers to claims-made.

As seen in **Table 5-1**, the majority of WCSD’s coverage levels meet or exceed the OSC minimum insurance standards. However, WCSD’s insurance coverage is below the OSC minimum standards in the following areas:

- **Property:** WCSD’s coverage for extra expense is \$300,000 per location, and back-up of sewers and drains is \$25,000, which are lower than OSC’s minimum standards of \$500,000 per location and \$50,000, respectively.
- **Crime:** OSC recommends at least a \$50,000 limit for employee dishonesty, but WCSD has only a \$5,000 limit.
- **Umbrella (extend over police/law enforcement) & Terrorism:** Although not covered by WCSD, OSC recommends including these areas in the coverage.

In addition, WCSD’s coverage levels exceed the OSC’s minimum standards in umbrella liability (\$6.0 million), fleet deductibles (\$1,000), and off premises service interruptions within property coverage (\$50,000). Establishing formal specifications for coverage levels would help the District ensure that it obtains the appropriate and desired coverage (see **R5.1**).

### *Financial Data*

**Table 5-2** compares the District’s insurance premium costs with the peers.

**Table 5-2: FY 2004-2005 Premium Cost Comparison**

	<b>Warren CSD</b>	<b>Barberton CSD</b>	<b>Zanesville CSD</b>	<b>Hamilton CSD</b>	<b>Peer Average</b>
<b>Property, Crime, and Bond Coverage</b>	\$83,350	\$79,828	\$69,483	\$124,650	\$91,320
<b>Fleet</b>	\$44,814	\$37,064	\$30,254	\$81,059	\$49,459
<b>General Liability</b>	\$48,952	\$20,041	\$39,782	\$87,240	\$49,021
<b>Umbrella</b>	\$18,899	\$9,569	\$22,771	- <sup>1</sup>	\$16,170
<b>Total Plan Premium</b>	<b>\$196,015</b>	<b>\$146,502</b>	<b>\$162,290</b>	<b>\$292,949</b>	<b>\$200,580</b>
<b>Total Students</b>	6,567	4,548	4,168	9,490	6,069
<b>Total Staff FTEs</b>	887	483	567	1,300	783
<b>Total Premium Per Student</b>	<b>\$29.85</b>	<b>\$32.21</b>	<b>\$38.94</b>	<b>\$30.87</b>	<b>\$34.01</b>
<b>Total Premium Per Employee</b>	<b>\$220.99</b>	<b>\$303.32</b>	<b>\$286.23</b>	<b>\$225.34</b>	<b>\$271.63</b>
<b>Liability Premium Per Student</b>	\$7.45	\$4.41	\$9.54	\$9.19	\$7.71
<b>Liability Premium Per Employee</b>	\$55.19	\$41.49	\$70.16	\$67.11	\$59.59
<b>Umbrella per Student</b>	\$2.88	\$2.10	\$5.46	- <sup>1</sup>	\$3.71
<b>Umbrella per Employee</b>	\$21.31	\$19.81	\$40.16	- <sup>1</sup>	\$30.80
<b>Building Square Footage</b>	989,979	753,811	618,063	1,364,147	912,007
<b>Property Premium Per Building Sq. Ft.</b>	\$0.08	\$0.11	\$0.11	\$0.09	\$0.10
<b>Fleet Book Value, Net of Depreciation</b>	\$1,394,885	\$242,824	\$391,031	\$1,767,585	\$800,480
<b>Fleet Premium as Percent of Vehicle Book Value, Net of Depreciation</b>	3.21%	15.26%	7.74%	4.59%	9.20%
<b>Fleet Premium Per Vehicle</b>	\$735	\$862	\$704	\$1,001	\$855

Source: Warren CSD and Peer Insurance Certificates, ODE, and District financial statements

<sup>1</sup> Hamilton's Property, General Liability, and Automobile coverage includes umbrella coverage.

**Table 5-2** shows that the District's total plan premium costs are lower than each peer, based on the number of students and employees. Its liability premium costs per student and employee are the second-lowest when compared to the peers. Additionally, WCSD's umbrella premium costs per student and employee are 22 and 31 percent lower than the peer averages, respectively. Based on building square footage, the District's property premium costs are the lowest when compared to the peers. Lastly, its fleet premium costs as a percent of net fleet book value and per vehicle are the lowest and second lowest, respectively, when compared to the peers.

Because differences in coverage levels could impact premium costs, **Table 5-3** compares WCSD's coverage levels to the peers.

**Table 5-3: Coverage Levels**

	Warren CSD	Barberton CSD	Zanesville CSD	Hamilton CSD	Peer Average
<b>Liability Coverage</b>					
General Liability	\$2,000,000	\$2,000,000	\$2,000,000	\$3,000,000	\$2,333,333
Employee Benefits Liability	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Employers Liability/Stop Gap	\$2,000,000	\$2,000,000	\$1,000,000	N/A <sup>1</sup>	\$1,500,000
Sexual Misconduct Liability	\$1,000,000	\$1,000,000	\$2,000,000	\$1,000,000	\$1,333,333
Medical Expense (Excluding Students)-Incident	\$15,000	\$15,000	\$10,000	N/A <sup>1</sup>	\$12,500
Personal & Advertising Limit	\$1,000,000	\$1,000,000	\$1,000,000	N/A <sup>1</sup>	\$1,000,000
Damage to Premises Rented	\$300,000	\$300,000	\$100,000	N/A <sup>1</sup>	\$200,000
<b>Property Coverage</b>					
Building Blanket & Contents	\$146,315,135	\$103,555,394	\$80,515,766	\$202,405,508	\$128,825,556
Deductible	\$5,000	\$2,500	\$5,000	\$1,000	\$2,833
Percent Coinsurance	90%	90%	90%	100%	93.33%
<b>Crime Coverage</b>					
Public Employee Dishonesty Coverage	\$5,000	\$100,000	\$100,000	\$600,000	\$266,667
Public Employee Dishonesty Deductible	\$250	\$0	\$0	\$1,000	\$333
Terrorism	Not Included	Not Included	Not Included	Included	N/A
<b>Fleet Coverage</b>					
Single Limit	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Uninsured/Underinsured Motorists	\$50,000	\$1,000,000	\$50,000	\$1,000,000	\$683,333
Medical Payments	\$5,000	\$5,000	\$1,000	\$5,000	\$3,667
Comprehensive Deductible	\$1,000	\$100	\$1,000	\$1,000	\$700
Collision Deductible	\$1,000	\$250	\$1,000	\$1,000	\$750
<b>Umbrella Coverage</b>					
Umbrella Liability	\$6,000,000	\$5,000,000	\$3,000,000	\$5,000,000	\$4,333,333
Umbrella Deductible	\$10,000	\$10,000	\$10,000	\$0	\$6,667
Extend over Police/Law Enf.	Not Included	Not Included	Not Included	Not Included	N/A

Source: Warren CSD and Peers

<sup>1</sup> Information provided by Hamilton CSD does not clearly convey these coverage levels.

With the exception of crime, property and uninsured/underinsured motorist coverage, **Table 5-3** shows that the District's coverage levels are generally similar to the peers. WCSD only has a \$5,000 limit for public employee dishonesty, while Barberton CSD and Zanesville CSD have a \$100,000 and Hamilton CSD has a \$600,000 limit. In addition, the District's property deductible is much higher than two of the three peers. The differences in these coverage levels could contribute, in part, to the District's lower property and crime premiums in **Table 5-2**. Likewise, the District's coverage level for uninsured/underinsured motorists is significantly lower than two peers, which to some extent could contribute to the lower fleet premiums in **Table 5-2**.



### *Noteworthy Accomplishments*

During the course of the audit, the following area was identified as a noteworthy accomplishment or commendable practice:

- **Liability and Umbrella Insurance:** For liability and umbrella insurance, WCSD is obtaining similar coverage at a lower cost when compared to the peers. More specifically, WCSD's general liability and premium costs per student and per employee are low when compared to the peers, even though the District's coverage levels are similar to, and in some cases exceed, the peers.

### *Issues for Further Study*

An additional area identified during the audit that may warrant examination but was outside the scope of the audit is shown below.

- **Workers' Compensation:** According to the District treasurer, the Ohio Bureau of Workers' Compensation (BWC) advises that the District could be paying as much as \$700,000 in excess premiums. In addition, there is no internal claims review process or formal communication with the District's third-party administrator. The lack of a formal risk management plan may be contributing to this excess premium (see **R5.2**). Nevertheless, the District should work with the BWC and its third-party administrator to address its excess premium costs and reduce workers compensation costs.

## **Findings/Recommendations**

F5.1 District policy 8710 states that the Board shall invite sealed bids for property insurance and shall be guided by the price of such coverage, the ability of the insurer to meet prescribed obligations promptly and fully, the reputation and past performance of the agent of the insurer, and the desirability of distributing the insurance coverage of the District through a local agent of record. The invitation to submit sealed bids implies the requirements of ORC § 3313.46 for soliciting bids and awarding contracts for expenditures greater than \$25,000. This includes preparation of specifications and advertisement for bids. However, ORC § 3313.46 deals with building, repairing, enlarging, improving or demolishing school buildings, rather than obtaining bids for insurance coverage. ORC § 3313.46(A)(2) requires a board to advertise bids once a week for at least two consecutive weeks. As a result, obtaining sealed bids for insurance could be a time consuming process. Additionally, the District only followed its sealed bid process one time, and none of the peer districts follow the sealed bid process for insurance. The District also lacks policies for other types of insurance (e.g., liability, crime, fleet and umbrella insurance) and has not developed a formal set of insurance coverage specifications to ensure that bids for insurance reflect the District's risk level. Furthermore, WCSD does not have formal procedures guiding the process to obtain and review insurance quotes.

In 2003-04, the District used one of OSC's agencies to provide most of its insurance coverage, and used a local agency to provide the remainder of its insurance coverage. In early 2004, the Business Manager approved the local agency's request to become the agent of record for the 2004-05 school year. As a result, all of the insurance business was consolidated with the local agency, thereby ceasing the District's participation in OSC's insurance program. However, there is no record of the Board expressing an opinion on using a local agent of record. Another quote was received from the other OSC agency, but the Business Office did not prepare a quote summary comparison. This inhibited the District from comparing costs along with coverage levels from the two agencies to ensure that it obtained the appropriate and desired insurance package. In addition, OSC offered a 5 percent discount to all OSC members.

The District's current insurance policy is effective from August 1<sup>st</sup> to August 1<sup>st</sup> of each year. For the 2005-06 school years, the Business Manager did not begin to solicit quotes until the first week of June 2005, when an application was received from the Ohio Association of School Business Officials' (OASBO) agent that handles the Ohio School Plan (OSP). The Business Office filled out the OSP application and sent it to the Treasurer's Office so that pertinent financial data could be added. However, the Treasurer's Office did not complete the financial portion of the application. As a result, no quote was provided by OASBO's agency. The Business Manager decided to renew the

2004-05 policy with the current local agent of record. As the District did not obtain more than one quote/bid, it did not meet the requirement of ORC §3313.203 and Board policy 8710.

According to ORC §3313.203 covering liability insurance, a board should have a statement of the estimated premium as quoted in writing by not less than two insurance companies, licensed to do business in the State of Ohio, if more than one company offers such insurance so the Board could accept the lowest and best quote. In addition, the Ohio School Boards Association brochure on competitive bidding notes that insurance is on a list of items not requiring competitive bids, but it is suggested that school boards obtain quotes from more than one source. OASBO suggests that school districts make certain insurance specifications meet their needs, and to review specifications with a knowledgeable school district agent.

The purchase of insurance for interscholastic sports further illustrates the failure to follow uniform procedures for reviewing and approving insurance quotes. The renewal policy for interscholastic sports was approved on the Board of Education (Board) motion 07-2005-258 to provide coverage for students in grades 7-12 involved with athletics, marching band and cheerleading. The motion states the funds are to be paid through athletic fund #300 in the amount of \$7,500 through an out-of-state agency representing an insurance company licensed to do business in Ohio. At the request of the Board President, a second quote was obtained by the Athletic Department Secretary for \$9,000 from another out-of-state agency representing an insurance company licensed to do business in Ohio. However, this quote was obtained after the Board approved the \$7,500 quote from the other agency. There is also no record showing that the District compared the types of coverage between companies, which could contribute to the differences in quotes. In addition, the Athletic Director, not the Business Manager, signed the existing agency student insurance coverage extension request as the authorized person, which was subsequently approved by the Board. However, the job description indicates that the Athletic Director can only recommend insurance coverage. Also, WCSD sent a letter to the insurance carrier in November 2005 indicating that the Athletic Director did not have the authority to sign and approve the related agreement. The Business Manager job description states that he is responsible for the WCSD purchasing process. Furthermore, Board policy 6320 assigns the responsibility for obtaining bids and quotes to the Business Manager, and gives the Business Manager authority to award contracts to the "lowest and best" bidder without Board approval for items costing less than \$25,000. Having one person responsible for procuring insurance coverage could help the District consolidate insurance packages and minimize premium costs.

By failing to consistently obtain quotes from other insurance providers and compare costs along with coverage levels, WCSD cannot be certain it is receiving the desired insurance coverage at the appropriate cost. In addition, the lack of coverage specifications, and

annual solicitation of bids based on those specifications, can result in inappropriate coverage. For example, in the area of employee dishonesty, OSC's insurance consultant recommends at least a \$50,000 limit; however, WCSD has only a \$5,000 limit. According to OSC's consultant, no school district should have less than a \$50,000 limit for employee dishonesty coverage for loss of money or securities due to acts of employee dishonesty. **Tables 5-1** and **5-3** identify additional areas where the District's coverage levels deviate considerably from OSC minimum requirements and peer districts. Lastly, the absence of formal procedures to guide the process has contributed to the failure to obtain several bids and adequately compare them.

**R5.1** The Board and WCSD administration should work with Legal Counsel to revise District policy 8710 on property insurance. The policy should be expanded to include all other applicable insurance in a manner consistent with the overall requirements of ORC § 3313.203. The District should obtain quotes from at least two different insurance agencies. Consistent with the District's job descriptions and Board policy 6320, the policy should state that the Business Manager is responsible for the procurement of all insurance coverage for the District, regardless of what fund is used to pay premiums.

In addition, WCSD should develop a set of formal insurance specifications, by type of coverage, to ensure its coverage levels are in line with the District's risk tolerance level. To accomplish this, WCSD should use the resources of OSC and review OSC's minimum standards for insurance coverage. This could be done as part of developing an overall District risk management plan (See **R5.2**). The District should review its current coverage levels to determine whether changes are necessary (see **Tables 5-1** and **5-3**).

To supplement its overall policy and provide direction over the process, the Business Manager should work with the Board to develop detailed administrative guidelines that outline the process for developing, maintaining and reviewing specifications; obtaining and comparing quotes; completing paperwork (e.g., financial portion of applications); and maintaining documentation. Also, the guidelines should explain when to review specifications, when to start requesting quotes, and define staff responsibilities. The District should allow sufficient time for reviewing quotes and providing recommendations to the Board. When reviewing bids, the District should ensure the quoted costs are based on its formal insurance specifications, and should review any differences in coverage levels along with quoted costs to allow for a reliable comparison of multiple agencies' bids. Lastly, the District should maximize the use of its membership in OSC by requesting quotes from OSC's preferred agencies, and obtain formal Board approval for the selection of an agency.

**F5.2** WCSD does not have a formal risk management plan. The following presents key areas which impact risk and the District's related policies and procedures:

- **Accidents:** According to District Policy 8442, the Board requires that accidents be reported and evaluated. Accordingly, the District has an investigative team that reviews all reported accidents to determine if they will result in a claim and if it should be paid by the Board. If the claim is found to be legitimate and it exceeds the insurance policy deductible, it is submitted to the District's insurance carrier for processing. Otherwise, the District pays the claims when approved by the Board. However, the District does not have a formal policy or procedure explaining how accident claims are to be handled. Also, claims are not tracked or analyzed to determine what steps need to be taken to prevent similar incidents from re-occurring.
- **Volunteers:** District Policy Section 3120.09 requires all volunteers to be fingerprinted and go through a criminal records background check before they can begin to interact with students. The policy also requires volunteers to sign release forms and mandates daily tracking of volunteers' work assignments. Currently, fingerprinting and background checks are completed. However, according to the Human Resources Secretary, some volunteers are not signing the release form acknowledging that they are covered by the District's liability insurance, but not health insurance or workers' compensation. In addition the Human Resources Secretary acknowledged that there is no documentation indicating where volunteers will be working in the District on a daily basis.
- **Building Usage:** District Policy 7510 requires that all applicants provide proof of insurance coverage before being approved to use facilities. A review of the current application for use of school buildings shows that a renter has to provide evidence of financial responsibility (i.e., insurance certificate showing liability coverage in a specified amount) upon request. A spot check of the building rental file for Harding High School for 2004-05 revealed that no rental agreements included insurance certificates.
- **Safety:** District Policy 7430 covering safety standards, points out that the Superintendent shall designate an employee to do periodic audits of health and safety conditions within District facilities. The policy also requires that safety plans be provided by all school principals. According to the Business Office Secretary, school principals have not submitted plans to the Business Manager outlining what steps are to be taken to prevent accidents. According to District Administrative Guideline 7430, the Curriculum Director is designated as the District's Safety Coordinator. However, the District does not currently have a Curriculum Director, and no one is functioning as the assigned Safety Coordinator. The District has a safety advisory committee intended to assist the Safety Coordinator, which is being carried out by two committee members – one from the Maintenance Department and one from the Attendance Office. The committee is made up of faculty, classified staff, administrators, students, District residents, and the City of Warren's Fire and Police

Chiefs. The committee focuses on safety throughout the District. However, material safety data sheets (MSDS) are not available for the District's warehouse, which contains janitorial chemicals stored near non-perishable food. A follow up with the custodian supervisor noted he was aware of the need to have material safety data sheets at each school building/facility to be in compliance with Occupational and Safety Health Act (OSHA) guidelines as outlined in OAC 3750-30-15. The MSDS file is now being updated.

Furthermore, the District does not make use of OSC's insurance consultant, who can provide assistance in developing a comprehensive risk assessment and plan. The cost of OSC's services depends on the depth of an assessment. In addition, BWC offers risk management reviews at no cost. The American Public Works Association (APWA) points out that by providing adequate resources to reduce risks and prevent losses, an entity can more effectively reduce the number of incidents while minimizing the risk of legal liability and associated costs.

The Westerville City School District has developed a risk management plan, which is defined as a "systematic approach to preventing or reducing exposure to losses." The plan is based on compliance with OSHA, EPA and other regulatory agencies, and insurance company requirements. It outlines requirements for education, prevention priorities and categories, how to handle losses, safety checklists for building maintenance, and loss analysis procedures.

The lack of a comprehensive risk management plan could cause the District to incur substantial costs due to higher insurance premiums resulting from claims, litigation awards and legal fees. It also does not allow employees to have access to procedures that would help ensure the safest environment possible. Without this information, employees' decisions may result in District liability for accidents. Further, an annual review of claims would give WCSD an opportunity to minimize incidents in the future.

**R5.2** WCSD administrators should work with the Board to develop a policy requiring a risk management plan, and subsequently develop and maintain a formal risk management plan. The plan should encompass current policies impacting risk management and address areas such as compliance with OSHA and EPA regulations, prevention priorities, and guidelines for handling accidents and tracking and analyzing related claims. For example, the guidelines could require the following information to be analyzed and tracked: description of what happened, the causes of the incident, and steps to prevent the incident from re-occurring. At the end of each fiscal year, the safety advisory committee should review all incidents that occurred during the year and recommend steps to prevent future incidents. As new incidents arise, procedures for handling them should be added to the risk management plan.

The District should seek guidance from BWC and the OSC insurance consultant in developing a formal risk management plan. The District should review the risk management plan and policies with appropriate staff and periodically gauge compliance to ensure they are being followed. Any non-compliant areas should be promptly addressed. For instance, the District should ensure volunteers sign release forms, track where volunteers are assigned to work on a daily basis, require all renters to provide proof of insurance coverage before being approved to use facilities, and maintain up-to-date MSDS for all facilities. Moreover, new policies should be created as required. The administration and Board should also identify the appropriate position to serve as the safety coordinator, and update District Administrative Guideline 7430.

By developing and continually updating the risk management plan, consulting with insurance company loss prevention specialists, and ensuring compliance with its risk management policies, WCSD should be able to reduce its risk exposure and potentially reduce premiums. Furthermore, a formal risk management plan will provide a centralized and unified effort to reduce risk.

*Financial Implication:* If the District used the OSC consultant to help formulate a risk management plan, the costs could be approximately \$5,000.

## Financial Implication Summary

The following table presents a summary of the estimated implementation costs discussed in this section. For purposes of this table, only recommendations with quantifiable impacts are included.

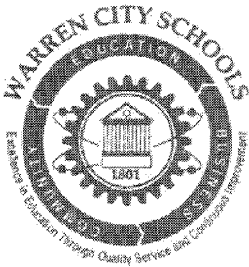
### Summary of Financial Implications

Recommendation	Estimated Implementation Costs (One-Time)
R5.2 Risk Management Consultant	\$5,000
Total	\$5,000



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**Dr. Kathryn Hellweg, Superintendent of Schools**  
**Warren City School District**

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261 Monroe Street, NW • Warren, Ohio 44483-4810

Email: [kathryn.hellweg@neomin.org](mailto:kathryn.hellweg@neomin.org)

May 31, 2006

James W. Penning, Chief Auditor  
Performance Audit Section  
12<sup>th</sup> Floor Lausche Building  
615 Superior Avenue NW  
Cleveland, OH 44113-1801

Dear Mr. Penning:

On behalf of the Warren City School District, I would like to officially thank you for the professional manner in which the audit team conducted the Performance Audit for our District. I believe the District's request for this audit reaffirms our commitment to continuous improvement.

The primary goal of "providing an independent assessment of certain business operations in an effort to improve service delivery and optimize operational efficiency and effectiveness" was clearly accomplished. And, we concur with the recommendations indicated.

Due to the excellent interaction between the Audit Team and District staff, we were able to implement a number of the suggested changes prior to receipt of the written findings.

Probably the District's greatest strides have been in the area of Risk Management. Several months ago, we changed our TPA provider. Our Executive Director of Business Operations has been working closely with our new TPA provider to close many outstanding claims. Also, working with the Bureau of Workers' Compensation, we are complying with training and policy requirements for a Safe and Drug-Free Workplace. As a result, we anticipate a projected savings of over \$80,000 in next year's premium.

*Together We Learn...Together We Succeed!*

Visit our website at: [www.warrenschoools.k12.oh.us](http://www.warrenschoools.k12.oh.us)

James W. Penning, Chief Auditor  
Performance Audit Section  
May 31, 2006  
Page Two

We are currently reviewing the District's warehouse operation. We share the concerns regarding operational costs and the need to take advantage of a just-in-time delivery system. In addition to the items mentioned in the recommendations, we are concerned about the amount and age of the inventory and the small percentage of items being moved on a yearly basis.

Our Executive Director of Business Operations attempted to join electric and natural gas purchasing programs late last fall; however, it was too late to become involved in the gas program for the current year and some of our schools did not qualify because of low usage. However, the District is currently involved in the Ohio Schools Council's electric program. The District will continue to study the fiscal advantages of these programs.

The recommendations regarding staffing levels for building maintenance raise many questions that will need to be investigated. Since we will be transitioning into all new buildings during the next three years, staffing questions will definitely need to be addressed. The District has prided itself on quality maintenance of our aging facilities. The development of a standard operating manual, fully utilizing the work order software system, and consortium purchasing are recommendations that need to be implemented.

Our new District Treasurer is already addressing many of the fiscal concerns identified by the Performance Audit Team. As fiscal operations improve, it is imperative that an electronic purchasing system is implemented District-wide as quickly as possible. The recommendations for development of a comprehensive purchasing manual, centralization of purchasing under the Executive Director of Business Services, and utilization of a purchasing card for purchase of items costing less than \$1,000 will be addressed immediately.

We agree that the concept of providing food services through a centralized kitchen as the District transitions to five new buildings needs further study. The current architectural plans for our Ohio School Facilities Commission projects provide for complete food service preparation in each of the schools.

James W. Penning, Chief Auditor  
Performance Audit Section  
May 31, 2006  
Page Three

Again, we appreciate the professional manner in which this audit has been completed. We concur with the recommendations and look forward to creating more effective and efficient business practices for the District based on these recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Kathryn Hellweg". The signature is written in black ink and includes a long horizontal flourish extending to the right.

Dr. Kathryn Hellweg  
Superintendent of Schools

cc: Board Members  
Mark Donnelly, Executive Director of Business Operations