



Mary Taylor, CPA
Auditor of State

SUGARCREEK
LOCAL SCHOOL DISTRICT
PERFORMANCE AUDIT

OCTOBER 1, 2009



Mary Taylor, CPA
Auditor of State

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

Pursuant to Amended Substitute House Bill 119, a performance audit was initiated for the Sugarcreek Local School District (SLSD) beginning in December 2008. The five functional areas assessed in the performance audit were financial systems, human resources, facilities, transportation, and food service. These areas were selected because they are important components of District operations, which support its mission of educating children, and because improvements in these areas can assist in eliminating the District's financial difficulties and in improving its financial situation.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of SLSD's financial situation and a framework for its financial recovery plan. While the recommendations contained in the audit report are resources intended to assist in developing and refining the financial recovery plan, the District is also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the financial condition of the District; a District overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, and financial implications. This report has been provided to SLSD, and its contents discussed with the appropriate officials and District management. The District has been encouraged to use the results of the performance audit as a resource in further 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 can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

October 1, 2009

Executive Summary

Project History

In December 2008, the Auditor of State (AOS) initiated a performance audit of Sugarcreek Local School District (SLSD or the District) pursuant to House Bill (HB) 119 and in response to the District's October 2008 five-year forecast. The forecast showed a deficit of \$2.7 million beginning in FY 2009-10 and growing to \$22.9 million at the end of the forecast period. As stipulated under HB 119, the performance audit included a review of programs and areas of operation in which AOS believes that greater operational efficiency, effectiveness, or accountability may be achieved.

Based on AOS research and discussions with SLSD officials, the following areas were assessed in the performance audit:

- Finance and Strategic Management;
- Human Resources;
- Facilities;
- Transportation; and
- Food Service.

Audit work concluded in May 2009. The goal of the performance audit process was to assist SLSD administrators and the Board of Education (Board) in identifying cost saving opportunities and improving management practices. The ensuing recommendations comprise options that the District should consider in its continuing efforts to improve and stabilize its long-term financial condition.

District Overview

SLSD is located in Greene County, operates four school buildings and two administrative buildings, and owns a total of 217 acres. Like all Ohio school districts, it is governed by an elected Board. In FY 2007-08, the District provided educational services to an average daily membership (ADM) of 2,563.46¹ preschool through twelfth grade students. The District's per pupil General Fund expenditures were \$8,853 in FY 2007-08, and its revenue per pupil was \$8,849.

¹ The source for this formula average daily membership is the Final Version #4 enrollment data contained in the Ohio Department of Education (ODE) SF-3 report.

SLSD employed approximately 268 full-time equivalent (FTE) staff, including 12.5 FTE administrators and 114.0 FTE classroom teachers. During FY 2007-08, the District met 29 out of 30 academic performance indicators established by the Ohio Department of Education (ODE), met adequate yearly progress, and had a graduation rate of 97.7 percent.

SLSD has experienced a diminishing fund balance for several years. A mostly rural district, SLSD is located near Dayton but is outside the sphere of influence of the metropolitan area. It also encompasses a geographic area of 29.4 square miles, which affects its transportation operations.

In general, SLSD follows recommended practices in the financial management of the District, although practices and policies could be strengthened in some areas. District administrators have been proactive in addressing the District's deficit, making difficult reductions to maintain a positive fund balance. SLSD also has a comprehensive strategic plan, although an update is needed.

Declining enrollment in the District has contributed, in part, to some of the operational challenges and revenue/expenditure imbalance. SLSD has replaced, remodeled, or expanded all of its school buildings within the past decade, but retains two of its old buildings for use by external programs and District administrators. For safety reasons, the District has also chosen to transport all of its students and constructed its high school without student parking. Though the District's transportation costs are below the peers, its operations are inefficient. SLSD could provide full transportation services, as it did at the time of this audit, at a reduced cost through improvements in its utilization of buses. Finally, SLSD has improved the management of and participation in its food service program since it selected a new contractor in 2000. Although the Food Service Fund continues to operate in a deficit, minor adjustments to the program can help it achieve solvency.

Based on projections and assumptions contained in the District's May 2009 five-year forecast, the District can avoid a future operating deficit and sustain a positive fund balance through FY 2012-13 by implementing the recommendations outlined in this report. However, some of the reductions impact instructional areas and may have negatively impact the associated programs. SLSD will continue to encounter difficult decisions in the foreseeable future, although its administrators and Board have demonstrated a proactive approach to solving problems and managing District finances and operations. Regardless, the District will need to continually assess projections to determine if expenditure reductions beyond those presented in this report are needed.

Financial Outlook

Table 2-5 in the **finance and strategic management** section presents the framework for a financial recovery plan for SLSD that demonstrates the impact of the performance audit recommendations on the District's financial condition. With the inclusion of the financial implications from the performance audit recommendations, along with the District's efforts to reduce operating expenditures and the successful passage of the 5.5 mill replacement operating levy, **Table 2-5** in the **finance and strategic management** section shows that SLSD will have positive ending fund balances for each year of the forecast period. However, if its financial circumstances change and SLSD does not realize the revenues it is projecting it will receive it will be necessary for SLSD to consider other options for addressing the projected deficits or enact changes that go beyond the targeted savings identified in the performance audit recommendations, such as additional staffing or program reductions.

Prior to the adoption of final strategies for addressing the financial difficulties, SLSD is encouraged to discuss all potential options with stakeholders to obtain their input and expectations.

Subsequent Events

On April 30, 2009, Sugarcreek Local School District was placed in fiscal caution by ODE. Pursuant to Ohio Revised Code (ORC) § 3316.031, the State Superintendent of Public Instruction may place a school district in fiscal caution based upon a review of its five-year forecast. At the time of the audit, the District was developing its financial recovery plan for submission to ODE. The performance audit report should assist the District in its efforts to address the potential deficits and financial situation.

On August 4, 2009, the District's replacement operating levy passed by a margin of 142 votes (52.4 percent for and 47.6 percent against the levy). Passage of the levy is projected to bring a partial year's collection of approximately \$1.2 million in FY 2009-10 and \$2.4 million per year through the end of the forecast period. The District's May 2009 forecast shows the cumulative effect of this levy and would support the positive fund balances through FY 2012-13 shown (**Table 2-5, finance and strategic management**).

According to SLSD's July 10, 2009 foundation settlement report from ODE, the District will receive \$181,520 less in State unrestricted funding in FY 2009-2010 than in the previous year (FY 2008-09). However, SLSD will receive American Recovery and Reinvestment Act (ARRA) "stimulus" funds in which will equal the reduction in State unrestricted funds for the same year. It should be noted that the ARRA funding will be eliminated in two years (FY 2012-13), and the status of future State unrestricted funding is unknown. Therefore, the District should be cautious in its use of these funds and seek additional opportunities to reduce operating expenditure costs.

Furthermore, according to SLSD's July 10, 2009 foundation settlement report, the District will receive, after deductions and adjustments, \$981,835 less than the previous year (FY 2008-09) due to a new ESC contract amount of \$1,015,651, up from a \$14,156 ESC contract amount in FY 2008-09.

During the course of this audit, House Bill 1 (HB 1) was enacted into Ohio law on July 17, 2009. This Bill contains substantial changes to the school funding formula and educational requirements for Ohio school districts. It also contains several staffing requirements and lower student-to-teacher ratios in grades K-3. These requirements may increase SLSD's costs and should be considered in the District's staffing and financial recovery plan. In addition, the District should consider AOS recommendations concerning building capacity and the disposition of District buildings in light of potential space needs resulting from the changes to staffing requirements and student-to-teacher ratios.

Furthermore, HB 1 (ORC § 3321.01 and § 3321.05) requires that beginning in the 2010-11 school year, each school district must provide all-day kindergarten to each kindergarten student. SLSD provides two all day kindergarten classes on a tuition basis and, according to District administrators, the District will incur a loss of tuition revenue and additional costs associated with fulfilling this requirement.

Objectives, Scope and Methodology

Performance audits are defined as engagements that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.²

The overall objective of this performance audit is to assist the District in identifying strategies to improve its financial condition. The following presents the major assessments conducted in this performance audit:

- Expenditures, forecasting, budgeting, purchasing, strategic planning, and payroll operations were reviewed in the **financial systems section**.
- District-wide staffing levels, collective bargaining agreements, salary levels, and benefit costs were assessed in the **human resources section**.

² As defined in *Government Auditing Standards* (U.S. Government Accountability Office, 2007).

- Custodial and maintenance staffing, facility-related expenditures, building capacity, policies and procedures, preventative maintenance, energy management, and work order systems were examined in the **facilities section**.
- Transportation staffing and expenditures, reporting, and policies and procedures were reviewed in the **transportation section**.
- Food service operations, staffing levels, meals per labor hour, and the District's food service contract were examined in the **food service section**.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The recommendations in the performance audit comprise options that SLSD can consider in the continuing efforts to stabilize its financial condition.

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

To complete this report, auditors gathered and assessed data from various sources pertaining to key operations, conducted interviews with District personnel, and assessed requested information from SLSD and other school districts. The selected districts were Beaver Creek City (Greene County), Centerville City (Montgomery County), Copley-Fairlawn City (Summit County), Forest Hills Local (Hamilton County), Granville Exempted Village (Licking County), Kings Local (Warren County), Loveland City (Hamilton County), Mason City (Warren County), Perrysburg Exempted Village (Wood County), and Springboro Community City (Warren County).³

In addition, external organizations and sources were used to provide comparative information and benchmarks. They included ODE, the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO), as well as other related leading practices. Information used as criteria (benchmarks or leading practices) was not tested for reliability.

³ The ten peer districts are classified as type 7 districts by the Ohio Department of Education. These districts were selected because they are high performing, low cost school districts.

The performance audit process involved significant information sharing with SLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, periodic status meetings were held throughout the engagement to inform the District of key issues impacting selected areas, and to share proposed recommendations to improve or enhance operations. Throughout the audit process, input from SLSD was solicited and considered when assessing the selected areas and framing recommendations. Finally, the District provided verbal and written comments in response to the various recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified based on the District's comments.

The Auditor of State and staff express their appreciation to the Sugarcreek Local School District for its cooperation and assistance throughout this audit.

Noteworthy Accomplishments

This section of the executive summary highlights specific SLSD accomplishments identified throughout the course of the audit.

- SLSD's Transportation Coordinator works with surrounding districts to transport students who attend schools outside SLSD's boundaries. The group of districts establish transfer points and parent drop-offs within each district. SLSD transports its non-public students to its transfer point and a surrounding district bus picks up the student en route to the non-public school. Most intra-district routes combine public school riders and non-public school riders to increase efficiency until the bus has reached the transfer point.

Conclusions and Key Recommendations

The following are key recommendations from the performance audit report:

In the area of finance and strategic management, SLSD should:

- Enhance its policies and procedures to incorporate elements that will assist it in the management of District operations.
- Enhance the forecast assumptions by considering different financial scenarios and the effect of these scenarios on individual line items, as well as update the District's five-year forecast when events occur that could significantly influence future expenditures or revenue.
- Ensure that all revenue and expenditures are consistently recorded in compliance with the Uniform School Accounting System (USAS).

- Expand its web site to provide additional relevant financial information to parents, the community, and other stakeholders, such as property tax information and historical costs per pupil.
- Enhance its strategic plan by developing measurable targets for each goal.
- Develop a District-wide purchasing manual to ensure adherence to Board policies and to promote consistency in all purchasing applications.

In the area of human resources, SLSD should:

- Develop a formal staffing plan to address current and future staffing needs.
- Reduce staffing levels in the office/clerical classification by eliminating 1.0 FTE.

The District eliminated 1.0 FTE in the May 18, 2009 Board approved reductions.

- Renegotiate employee health insurance contributions to increase the single and family contributions from 10 percent to 15 percent.
- Discontinue payment of the employee share of retirement contributions for all administrative staff.

The District eliminated these payments in the May 18, 2009 Board approved reductions.

- Renegotiate the maximum sick leave accrual, payout, and paid holiday provisions within its employee bargaining agreements, as they exceed State minimums and recommended practices.
- Conduct annual surveys of its employees as a formal method to solicit feedback, gauge employee satisfaction, and assist the District in determining areas for improvement.
- Develop a policy for the completion of an annual evaluation of School Board operations.
- Evaluate the costs and benefits of bringing special education services in-house or sharing services with another district, compared with continuing its contract with the Greene County Educational Service Center.

In the area of facilities, SLSD should:

- Develop a capital improvement plan that incorporates leading practice elements. As a component of the plan, the District should plan and implement periodic comprehensive building audits to identify important maintenance and safety issues, assess the overall condition of District facilities and equipment, and serve as a reference for capital improvement planning.
- Consider selling the former Sugarcreek Elementary building by consolidating administrative offices into other District facilities, including the Sugarcreek Education Center.
- Develop and implement formal performance standards and measures to establish staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations activities.
- Develop a formal handbook for the Maintenance and Operations Department.
- Implement its computerized maintenance management system (CMMS) to help improve management of its facility maintenance program.
- Implement a formal District-wide energy conservation program, which includes training, awareness programs, and regular reviews of utility costs and usage.
- Limit Maintenance and Operations Department overtime to 2.0 percent of regular salaries.

In the area of transportation, SLSD should:

- Revise its transportation policy to reflect the transportation services actually provided by the District.
- Implement appropriate internal control procedures for completing all T-forms to ensure accurate and complete reporting.
- Eliminate at least eight regular needs buses to bring its public ridership capacity closer to optimal levels and ODE targets.

The District eliminated seven regular needs buses in its May 18, 2009 Board approved reductions.

- Develop and maintain a bus replacement plan to ensure that it is properly planning and budgeting for the replacement of its fleet.
- Develop a preventative maintenance plan using examples from recommended practices.

In the area of food service, SLSD should:

- Develop a food service strategic plan with specific goals and objectives that support, and are consistent with, District-wide strategic planning efforts.
- Negotiate performance measures into its food service contract and link negotiated payment amounts to these service levels.
- Charge all related expenses to the Food Service Fund, regardless of the Food Service Fund's ability to maintain a positive fund balance.
- Increase participation rates in its lunch programs in order to maximize federal reimbursement and sales.

Issues for Further Study

Auditing standards require the disclosure of significant issues identified during an audit that auditors did not review in depth. These issues may not be directly related to the audit objectives or may be issues that the auditors did not have the time or the resources to pursue. AOS has identified the following issue that requires further study:

- **Facilities:** SLSD should continue to assess its facility needs, develop enrollment projections, and incorporate these needs into a master facilities plan. The District engaged in a construction project in 2004 based on projections of increased enrollment. The new Middle School and additions to three other buildings were based on projected enrollment growth. In addition, to accommodate this growth, the District retained two older buildings and acquired several parcels of land, amounting to a total District ownership of 217 acres. However, during the construction period, the District experienced declining enrollment.

Based on current functional use, the District is using 77.3 percent of building capacity, lower than the recommended benchmark of 85.0 percent. If enrollment continues to remain flat, the additional land and building space may not be needed in the near future. Since the ownership of unnecessary buildings and even land can require maintenance expenses, the District should determine the costs and benefits associated with retaining these properties. While the District has indicated that developing a contiguous centralized

campus is a priority, the expense of retaining the properties until needed may not be affordable. Developing a master plan will detail the issues and assist the District in identifying facilities needs. Once the plan is implemented, the District should consider the potential impact of HB 1 on facilities needs and determine if there are unused properties, which if sold, would provide a one-time revenue source and eliminate the cost of maintaining and protecting these properties.

Summary of Financial Implications

The following table summarizes the performance audit recommendations that contain financial implications. These recommendations provide a series of ideas or suggestions that SLSD should consider. Some of the recommendations depend on labor negotiations or collective bargaining agreements. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Performance Audit First-Year Savings Implications

	Estimated Annual Savings
Recommendations Not Subject to Negotiation	
R3.2 Reduce 1.0 FTE office/clerical staff	\$39,400
R3.4 Discontinue payment of employees share of retirement contribution	\$102,000
R4.2 Close Sugarcreek Elementary building	\$68,000
R4.6 Implement an energy conservation program	\$86,500
R4.7 Reduce Maintenance & Operations overtime to 2 percent	\$14,100
R5.6 Reduce eight active buses	\$232,500
<i>Subtotal Cost Savings Not Subject to Negotiation</i>	<i>\$542,500</i>
Recommendations Subject to Negotiation	
R3.3 Increase employee share of health care premium costs	\$108,000
<i>Subtotal Cost Savings Subject to Negotiation</i>	<i>\$108,000</i>
Recommendations for the Food Service Fund	
R6.2 Require Contractor to meet NFSMI benchmarks and reduce labor costs	\$28,300
R6.4 Increase participation closer to peer average	\$43,000
<i>Subtotal Cost Savings for Recommendations for the Food Service Fund</i>	<i>\$71,300</i>
Total Cost Savings from Performance Audit Recommendations	\$721,800

Source: Performance audit recommendations

This page intentionally left blank.

Finance and Strategic Management

Background

This section of the performance audit focuses on the financial systems and strategic management functions within the Sugarcreek Local School District (SLSD or the District). The purpose of this section is to analyze SLSD's current and future financial condition, and to examine financial and strategic management policies and procedures in order to develop recommendations for improvements and identify opportunities to increase efficiency. SLSD's financial management policies, procedures, and operations were evaluated against recommended practices, industry standards, State requirements, and a 10 district¹ peer average, for the purpose of developing recommendations to improve efficiency and business practices. Recommended practices and industry standards were drawn from various sources including the Government Finance Officers Association (GFOA), the Ohio Department of Education (ODE), the Ohio Auditor of State (AOS), the American Institute of Certified Public Accountants (AICPA), and the National Institute of Governmental Purchasing (NIGP).

Treasurer's Office Operations

The Treasurer is the District's chief financial officer and is responsible for the preparation of the annual budget, five-year forecast, financial records, and the handling of cash and deposits. There are four employees in the SLSD Treasurer's Office: the Treasurer, two full time Assistants to the Treasurer, and the Accounting Technician. The Treasurer has been with the District for six years and reports directly to the Board of Education (the Board). The Treasurer tracks all revenue and expenditures, develops financial statements, maintains the District's five-year forecast, and reports District finances to the Board and the public. The two Assistants report directly to the Treasurer, and are responsible for administering accounts payable/receivable, student activities, employee benefits, employee contracts, and bank statements, and for generating monthly reports for the Treasurer. The Accounting Technician works full-time nine months of the year, and is primarily responsible for administering payroll. During the summer, one of the Assistants to the Treasurer administers payroll. Treasurer's Office operations are guided by Board-approved Bylaws and Policies² developed using templates promulgated by Northeastern Ohio Learning Associates (NEOLA).

¹ See the **executive summary** for a description of the 10 peer district average used as a benchmark throughout this performance audit.

² <http://www.neola.com/sugarcreek-oh/>

Financial Condition

Table 2-1 presents SLSD's historical and projected revenue and expenditures as approved by the Board on October 9, 2008 and as submitted to ODE. SLSD's October 2008 forecast and assumptions were reviewed for compliance with State requirements and for reasonableness in historical and projected revenue and expenditures.

Table 2-1: FY 2008-09 October Five-Year Forecast (in 000s)

	Actual			Forecasted				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
General Property (Real Estate) Tax	\$10,241	\$11,517	\$12,524	\$13,275	\$12,200	\$10,800	\$11,124	\$11,680
Tangible Personal Property Tax	\$1,492	\$1,331	\$454	\$450	\$425	\$425	\$425	\$425
Unrestricted Grants-in-Aid	\$6,413	\$6,140	\$6,139	\$6,200	\$6,200	\$6,200	\$6,200	\$6,200
Restricted Grants-in-Aid	\$13	\$25	\$14	\$14	\$14	\$14	\$14	\$14
Property Tax Allocation	\$1,291	\$1,871	\$1,981	\$2,125	\$1,952	\$1,728	\$1,824	\$1,920
All Other Operating Revenue	\$1,073	\$944	\$799	\$730	\$730	\$730	\$730	\$730
Total Revenue	\$20,522	\$21,829	\$21,911	\$22,794	\$21,521	\$19,897	\$20,317	\$20,969
Operating Transfers-In	\$77	\$0	\$755	\$0	\$0	\$0	\$0	\$0
All Other Financial Sources	\$1	\$0	\$18	\$20	\$0	\$0	\$0	\$0
Total Other Financing Sources	\$77	\$0	\$773	\$20	\$0	\$0	\$0	\$0
Total Revenue and Other Financing Sources	\$20,600	\$21,829	\$22,684	\$22,814	\$21,521	\$19,897	\$20,317	\$20,969
Personnel Services	\$12,507	\$13,490	\$14,037	\$14,056	\$14,688	\$15,422	\$15,962	\$16,521
Employees' Retirement/Insurance Benefits	\$4,013	\$4,276	\$4,317	\$4,298	\$4,728	\$5,200	\$5,721	\$6,293
Purchased Services	\$1,620	\$1,998	\$2,047	\$2,052	\$2,257	\$2,370	\$2,489	\$2,613
Supplies and Materials	\$740	\$783	\$878	\$998	\$945	\$992	\$1,042	\$1,094
Capital Outlay	\$137	\$108	\$171	\$151	\$158	\$166	\$174	\$183
Other Objects	\$854	\$891	\$1,228	\$1,444	\$1,516	\$1,591	\$1,671	\$1,755
Total Expenditures	\$19,871	\$21,546	\$22,678	\$22,998	\$24,292	\$25,741	\$27,059	\$28,459
Operational Transfers - Out	\$96	\$768	\$16	\$20	\$20	\$20	\$20	\$20
Total Other Financing Uses	\$96	\$768	\$16	\$20	\$20	\$20	\$20	\$20
Total Expenditure and Other Financing Uses	\$19,968	\$22,314	\$22,694	\$23,018	\$24,312	\$25,761	\$27,079	\$28,479
Excess Revenue & Other Financing Sources over(under) Expenditures & Other Financing	\$632	(\$485)	(\$10)	(\$204)	(\$2,791)	(\$5,864)	(\$6,762)	(\$7,510)
Beginning Cash Balance	\$164	\$797	\$312	\$302	\$98	(\$2,693)	(\$8,558)	(\$15,320)
Ending Cash Balance	\$797	\$312	\$302	\$98	(\$2,693)	(\$8,558)	(\$15,320)	(\$22,830)
Outstanding Encumbrances	\$83	\$125	\$179	\$0	\$0	\$0	\$0	\$0
Fund Balance June 30 for Certification of Appropriations	\$714	\$186	\$123	\$98	(\$2,693)	(\$8,558)	(\$15,320)	(\$22,830)
Property Tax - Renewal	\$0	\$0	\$0	\$0	\$2,000	\$4,100	\$4,200	\$4,300
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$0	\$0	\$2,000	\$6,100	\$10,300	\$14,600
Fund Balance June 30 for Certification of Contracts, Salary Schedule, Other Obligations	\$714	\$186	\$123	\$98	(\$693)	(\$2,458)	(\$5,020)	(\$8,230)
Income Tax – New (November 2008)	\$0	\$0	\$0	\$111	\$1,600	\$2,500	\$2,600	\$2,700
Cumulative Balance of New Levies	\$0	\$0	\$0	\$111	\$1,711	\$4,211	\$6,811	\$9,511
Unreserved Fund Balance June 30	\$714	\$186	\$123	\$208	\$1,017	\$1,753	\$1,791	\$1,281

Source: SLSD and ODE

Note: Totals may vary due to rounding.

As illustrated in **Table 2-1**, SLSD's FY 2008-09 expenditures were projected to exceed revenue by approximately \$204,000. SLSD's October 2008 five-year forecast projected new revenue beginning in FY 2008-09 from a new earned income tax. However, this levy failed (64/36 percent) in November 2008, causing the District to take additional steps to avoid a negative fund balance. Without the new income tax levy, the District's forecast shows a year-ending fund deficit of \$693,000 beginning in FY 2009-10. This deficit increases throughout the forecasted period to approximately \$8.2 million in FY 2012-13.

In response to the failure of the November 2008 levy, SLSD made reductions in order to avoid operating with a negative fund balance. In December 2008, the District identified and received Board approval for approximately \$342,000 in non-personnel reductions to take place beginning FY 2009-10. However, non-personnel items were not sufficient to address the projected deficits, and the District approved \$1.0 million in personnel reductions at the March 12, 2009 Board meeting. These additional reductions are scheduled to be implemented in FY 2009-10.

During the course of the performance audit, the Board placed a renewal of a 9.0 mill operating levy on the May 5 special election ballot, which passed 72/28 percent. In addition, the Board approved the May 2009 five-year forecast. The updated forecast reflects the failure of the November income tax levy and the reductions addressing projected deficits, as well as the passage of the renewal levy. Since the development of the May forecast, the District passed a replacement operating levy on August 4, 2009 (see *subsequent events* in the **executive summary**).

SLSD's October 2008 forecast was analyzed for reasonableness and auditors identified areas where the District could improve its accuracy (see **R2.2** and **R2.3**). SLSD's updated May 2009 forecast was used in the financial recovery plan (see **Table 2-5**) to account for District reductions and to illustrate additional savings from the implementation of performance audit recommendations.

Financial Operations

Table 2-2 compares SLSD's FY 2007-08 General Fund revenue and expenditures with the peer average. Comparisons are made on a per student basis.³

³ For the purposes of General Fund revenue and expenditures, per student is based on formula average daily membership (ADM), as calculated by ODE and published in the FY 2007-08 final SF-3 report.

Table 2-2: FY 2007-08 Per Student General Fund Revenue & Expenditure Comparison

	SLSD	Peer Average	\$ Difference	% Difference
Property & Income Tax	\$5,062	\$5,677	(\$615)	(10.8%)
Intergovernmental Revenues	\$3,176	\$2,975	\$201	6.8%
Other Revenue	\$611	\$477	\$134	28.1%
Total Revenue	\$8,849	\$9,129	(\$280)	(3.1%)
Wages	\$5,476	\$5,542	(\$66)	(1.2%)
Fringe Benefits	\$1,684	\$1,906	(\$222)	(11.7%)
Purchased Services	\$798	\$857	(\$58)	(6.8%)
Supplies & Textbooks	\$342	\$352	(\$9)	(2.7%)
Capital Outlay	\$67	\$107	(\$40)	(37.8%)
Debt Service	\$0	\$8	(\$8)	(100.0%)
Miscellaneous	\$479	\$205	\$275	134.2%
Other Financing Uses	\$6	\$66	(\$60)	(90.6%)
Total Expenditures	\$8,853	\$9,043	(\$191)	(2.1%)

Source: SLSD and peer FY 2007-08 4502s and SF-3s

Note: Totals and differences may vary due to rounding.

As shown in **Table 2-2**, SLSD's total General Fund revenue per student in FY 2007-08 was \$280 (3.1 percent) below the peer average. The District received 10.8 percent less in property and income tax revenue per student. SLSD attempted to increase this revenue source through a ballot issue. The results of a community survey conducted in June 2008 led the District to place an earned income tax levy on the November 2008 ballot, but this levy failed. The District received 6.8 percent more intergovernmental revenue and 28.1 percent more per student in other revenue when compared with the peers. The other revenue line included an advance in to the General Fund, which compensated for an advance out SLSD made in FY 2006-07. This advance was used to pay off the construction project for the District's new middle school building.

Table 2-2 shows that SLSD's FY 2007-08 General Fund expenditures of \$8,853 per student were 2.1 percent lower than the peer average. The only expenditure area that was higher than the peer average on a per student basis was miscellaneous expenditures.⁴ The District's miscellaneous expenditures were \$479 per student and accounted for 5.4 percent of total expenditures in FY 2007-08. This was significantly higher (134.2 percent per student) than the peer average. Overall, SLSD spent \$1,228,385 in miscellaneous expenditures, of which 77.9 percent were charges for support services for disabled students provided by the Greene County Educational Service Center (ESC).

⁴ This category can include expenditures for dues and fees; insurance to protect against loss due to accident or neglect; judgments, awards, and prizes; support services; and other miscellaneous expenditures.

SLSD contracts with the Greene County ESC for curriculum⁵ and special education services. The special education services make up the majority of costs and include therapy, preschool, psychological services, SBH/mental health services, intensive needs/autism services, and special education supervision. School districts may be able to offset direct instruction costs (personal services and ERIB) by entering into cooperative agreements with other entities to provide specific services, including special education. SLSD indicated that the ESC contract is being evaluated for potential savings opportunities for FY 2009-10. Special education services and staffing levels are evaluated in detail in **human resources**.

The Uniform School Accounting System (USAS) object codes are assigned by AOS to identify, classify and categorize school district expenditures. SLSD codes its payments to the ESC as dues and fees in the 800 object code.⁶ However, services purchased from the ESC would better be represented as purchased services in the 400 object code (see **R2.4**). Implementing these coding changes would provide for more appropriate comparisons with the peer averages, and would impact the comparisons from **Table 2-2** in the following ways:

- **Miscellaneous Expenditures:** This line item would have decreased to \$106 per student, 48.3 percent below the peer average.
- **Purchased Services:** This line item would have increased to \$1,172 per student, 38.6 percent above the peer average.

The changes show that when object codes for these services are adjusted, the expenditures dedicated to the ESC will continue to exceed the peer average. However, by adjusting its coding, SLSD will be better able to evaluate the level of service received from the ESC and the District's costs in this area.

Although SLSD's overall expenditures were below the peer average, District spending was examined in detail in an effort to identify areas of potential savings. **Table 2-3** illustrates SLSD's FY 2007-08 controllable expenditures per student and as a percentage of total expenditures compared with the peer average. In this case, controllable expenditures are defined as those expenditures that are not governed by negotiated agreements or contracts and that a district can control to some degree in the short term. SLSD is able to regulate and/or influence these expenditures through its practices or controls.

⁵ Curriculum services consist of the District's two curriculum instructors.

⁶ Specifically, these payments are coded as object 844, contributions to the county board of education.

Table 2-3: FY 2007-08 Controllable Expenditures

Discretionary Expenditure	SLSD		Peer Average		Difference	
	\$ Per Student	% of Total General Fund Exp	\$ Per Student	% of Total General Fund Exp	\$ Per Student	% of Total Difference
Professional and Technical Services	\$62.45	0.7%	\$174.40	1.9%	(\$111.95)	(1.2%)
Property Services	\$225.37	2.5%	\$183.88	2.1%	\$41.50	0.5%
Mileage/Meeting Expenses	\$20.20	0.2%	\$22.55	0.2%	(\$2.35)	(0.0%)
Communications	\$21.40	0.2%	\$20.39	0.2%	\$1.01	0.0%
Contract, Craft or Trade Services	\$0.00	0.0%	\$8.94	0.1%	(\$8.94)	(0.1%)
Pupil Transportation	\$13.43	0.2%	\$13.29	0.1%	\$0.14	0.0%
Other Purchased Services	\$9.18	0.1%	\$13.84	0.1%	(\$4.67)	(0.0%)
General Supplies	\$77.03	0.9%	\$124.89	1.4%	(\$47.86)	(0.5%)
Textbooks/Reference Materials	\$33.83	0.4%	\$57.98	0.6%	(\$24.15)	(0.3%)
Supplies & Materials for Resale	\$97.39	1.1%	\$17.68	0.2%	\$79.71	0.9%
Food & Related Supplies/Materials	\$0.00	0.0%	\$0.20	0.0%	(\$0.20)	(0.0%)
Plant Maintenance and Repair	\$22.31	0.3%	\$51.16	0.6%	(\$28.85)	(0.3%)
Fleet Maintenance and Repair	\$111.80	1.3%	\$99.03	1.1%	\$12.77	0.2%
Other Supplies & Materials	\$0.00	0.0%	\$0.78	0.0%	(\$0.78)	(0.0%)
Land, Building & Improvements	\$3.78	0.0%	\$4.59	0.1%	(\$0.81)	(0.0%)
Equipment	\$62.86	0.7%	\$66.31	0.7%	(\$3.45)	(0.0%)
Buses/Vehicles	\$0.00	0.0%	\$36.21	0.4%	(\$36.21)	(0.4%)
Other Capital Outlay	\$0.00	0.0%	\$0.00	0.0%	\$0.00	0.0%
Dues and Fees	\$477.83	5.4%	\$193.80	2.2%	\$284.04	3.2%
Insurance	\$0.18	0.0%	\$6.78	0.1%	(\$6.60)	(0.1%)
Awards and Prizes	\$1.18	0.0%	\$0.70	0.0%	\$0.48	0.0%
Miscellaneous	\$0.00	0.0%	\$1.91	0.0%	(\$1.91)	(0.0%)
Total	\$1,240.23	14.0%	\$1,099.03	12.2%	\$141.20	1.8%

Source: SLSD and peer FY 2007-08 4502s and SF-3s

Note: Totals and differences may vary due to rounding.

As shown in **Table 2-3**, SLSD's controllable expenditures accounted for 14.0 percent of the District's total General Fund expenditures, which is higher than the peer average of 12.2 percent. SLSD's total controllable expenditures per student were approximately \$1,240, or \$141 more per student than the peer average.

The controllable expenditures category where SLSD significantly exceeded the peer average was dues and fees. The District spent \$284.04 more per student in FY 2007-08. This category includes payments made to the Greene County ESC, also identified in the General Fund comparison in **Table 2-2**. Coding changes discussed in this section would show that SLSD spent less than the per student peer average. District decisions regarding the provision of educational services are examined in detail in **human resources**. Other areas of controllable expenditures where SLSD exceed the peer average include the following:

- **Property Services:** SLSD spent \$41.50 more per student than the peer average on property services. Total expenditures in this category were \$577,737, with 51.7 percent dedicated to repairs and maintenance service. Other expenditures were for property services, garbage removal, and property insurance (see **facilities** for a detailed analysis of maintenance services).
- **Supplies & Materials for Resale:** SLSD spent \$79.71 more per student than the peer average on supplies and materials for resale. The District spent \$249,670 in this category in FY 2007-08, the majority of which included workbooks and classroom supplies covered by student fees.
- **Fleet Maintenance & Repair:** SLSD spent \$12.77 more per student than the peer average on fleet maintenance and repair. This category includes supplies and material for vehicles, fuel, and tires and tubes. The District spent \$286,598 in this category in FY 2007-08, with fuel accounting for 75.0 percent. SLSD transports all students, including high school students (see **transportation** for a detailed analysis of service levels).

Table 2-4 provides a comparison between SLSD and the peer average expenditures on a per student basis as reported in the FY 2007-08 Expenditure Flow Model (EFM). ODE uses the EFM to report per-pupil spending for Ohio's schools. The EFM uses districts' end of year financial records to organize expenditure data into meaningful and comparable categories and report expenses related to the education of students. Because school districts often handle funds unrelated to the instruction of students, not all expenditures accounted for by a school district are included in the model.

Table 2-4: SLSD and Peer FY 2007-08 EFM Expenditures Per Student

Expenditure	SLSD	Peer Average	\$ Difference	% Difference
Administrative Expenditures	\$1,023	\$979	\$44	4.5%
Building Operations Expenditures	\$2,091	\$1,936	\$155	8.0%
Staff Support Expenditures	\$155	\$321	(\$166)	(51.8%)
Pupil Support Expenditures	\$1,576	\$989	\$587	59.3%
Instructional Expenditures	\$4,548	\$5,588	(\$1,040)	(18.6%)
Total	\$9,393	\$9,814	(\$421)	(4.3%)

Source: ODE FY 2007-08 Expenditure Flow Model Data

Note: Totals and differences may vary due to rounding.

As illustrated in **Table 2-4**, SLSD's total EFM expenditures were 4.3 percent less per student than the peer average in FY 2007-08. The two categories where the District spent less include staff support and instructional expenditures. SLSD's staff support expenditures were \$166 per student (51.8 percent) below the peer average. Staff support expenditures are dollars spent on various areas of employee support including staff development and training. According to the District, it made reductions in professional development in FY 2007-08 because of its financial

condition. Building budgets were reduced, which affected the amount of professional development approved for teachers. In addition, SLSD has developed a partnership with Wright State University to provide professional development opportunities to its employees at no cost to the District.

SLSD also spent less than the peer average in instructional expenditures. These expenditures include personnel costs for teachers, teacher aides, and paraprofessionals as well as materials, computers, books, and other consumable materials used by students in the classroom. SLSD spent \$4,548 per student, compared with the peer average of \$5,588.

Table 2-4 also shows expenditure categories where SLSD's costs per student exceeded the peer averages. The District spent \$587 more than the peer average per student on pupil support. These expenditures are for the support students receive outside the classroom and beyond academic instruction. Administrative expenditures and building operations were above the peer averages by 4.5 percent and 8.0 percent, respectively.

Strategic Planning

SLSD developed and implemented its strategic plan in 1997. The Strategic Planning Team consists of Board members, central office staff, principals, teachers, parents, and community members. The strategic plan includes the District's mission statement, belief statements, and the following five key strategic goals:

- **Continuous Improvement:** Evaluate and continually improve curriculum, instruction, and professional development to provide a rigorous education program so all students can achieve their highest potential;
- **Technology:** Expand, integrate, and employ technology within the schools and community;
- **Communication:** Strengthen the school/community partnership through effective communications;
- **Facilities:** Update and revise the Facilities Master Plan to provide well-maintained and optimally utilized buildings and grounds that are a sources of pride for the community; and
- **Finances:** Maximize financial opportunities and funding support while maintaining proper stewardship to promote the best interest of the community.

Each of the five goals contains strategies defining specific tasks to achieve the goal. Furthermore, actions plans, steps, assigned employees, and timelines to guide the District in

meeting its strategic goals accompany each strategy. The District's Strategic Planning Team meets annually to review SLSD's progress and update the strategic plan accordingly. This meeting takes place in June before a scheduled Board meeting, is open to the public, and includes a progress report for each strategic goal.

Community Involvement

SLSD actively involves its stakeholders in decision making and activities through its web site, community surveys, and committees. *The Bridge* is a publication mailed to all District residents,⁷ and includes a range of financial information such as District-approved reductions, general information on levies, per student spending comparisons, and comments from the Treasurer and Financial Advisory Committee.

The District's community page on its web site provides a range of information, including Parent Teacher Organization (PTO) meeting minutes and events. The Bellbrook/Sugar Creek Education Foundation (BSEF) is a foundation developed by community members and approved by the Board to provide financial support not available through public funds. The District's web site provides general information on BSEF, gift ideas, types of donations, pledge forms, contact information, and a hall of fame for donating residents.

The District's Financial Advisory Committee consists of community members, business leaders, the Treasurer, Superintendent, Business Manager, and a Board member. The group meets every two months to discuss relevant financial information such as the forecasted revenues and expenditures, the financial audit, and potential changes in District finances. In addition, the Levy Committee includes community members, business leaders, and District employees. The group was organized and is supported by the community to help spread the word regarding the District's financial situation and upcoming levies.

In June 2008, the District implemented a community survey to obtain feedback in a range of areas. A third party was contracted to complete the phone survey of approximately 400 District residents. The information was compiled and presented to the Board. One area of focus for the survey was the financial situation of the District and opinions regarding a levy. The information was used by District administrators to determine the type of levy to place on the ballot.

SLSD Board members expressed confidence in District administrators regarding the preparation of financial reports. Members indicated that they felt that information was readily available and provided in order to make important decisions for the District.

⁷ In an effort to reduce costs, the number of publications of *The Bridge* was reduced from six per year to three in FY 2008-09.

Finance and Strategic Management Audit Objectives

The following is a list of the questions used to guide the evaluation of financial system functions at SLSD:

- What circumstances led the District to its current financial status?
- Does the District's financial data appear to be valid and reliable?
- Are revenue and expenditures properly controlled, reported, and similar to comparable peer districts?
- Is the District's financial planning process sufficient and appropriate when compared with recommended practices?
- How do the recommendations in the performance audit and forecast adjustments impact the financial condition of the District?
- How does the District ensure financial services are delivered effectively to the users, and what steps has the District implemented to improve its financial condition?
- Does the District have an effective system of communicating its financial data and obtaining feedback?
- Has the District developed and distributed a strategic plan which links educational and operational plans and meets best practice standards?
- Does the District effectively manage purchasing operations?
- Does the District effectively manage payroll operations?
- Has the District established policies governing ethical conduct?

A review of historical financial audits and management letters indicates that the District's reporting methods and financial data are reliable for the purpose of the performance audit.

Recommendations

Policies and Procedures

R2.1 SLSD should enhance its policies and procedures to incorporate elements that will assist it in the management of District operations. Complete and up-to-date policies and procedures ensure that District administrators, employees, and other stakeholders have a clear understanding of the processes in each of its operational areas. Furthermore, policies and procedures serve as readily available resources articulating the District's accepted and approved approaches to day-to-day operations.

SLSD adopted its policies from NEOLA and updates them on a monthly basis. NEOLA assists school districts with developing and updating their board bylaws and policies by sending monthly updates. The Board reviews these bylaws and policies, then tailors them to the District's needs and adopts them.

AOS has identified policies and procedures which SLSD has not yet developed, but which are considered leading practices or industry standards. SLSD should develop, approve, and implement:

- **An enhanced ethics policy:** The adoption of a more comprehensive ethics policy works to ensure that all staff members, particularly those entrusted with District funds, conduct themselves in a manner that avoids favoritism, bias, and the appearance of impropriety. Furthermore, comprehensive ethics policies will help ensure that employees' actions are always in the best interest of the District and help the District avoid any appearance of impropriety. The Ohio Ethics Commission has adopted a sample ethics policy for local governments which outlines specific restraints on employee conduct.⁸ While the District has ethics policies in place, and there is no evidence of unethical behavior among administrators or staff, enhancing policies to include additional elements of leading practices will help ensure that employees are aware of the guidelines for appropriate behavior when acting on behalf of the District.
- **A financial forecasting procedure:** A procedure on financial forecasting should outline preparation timetables, forecast assumptions and methodologies, as well as the process used to update existing forecasts (see **R2.2**). In addition, the forecasting policy should outline all participants in the forecasting process and include an outline for how and when those participants should review the forecast

⁸ The Ohio Ethics Commission's sample ethics policy for local government officials can be found online at: http://www.ethics.ohio.gov/ModelEthicsPolicy_localagencies.html.

for accuracy. According to the *Guide for Prospective Financial Information* (AICPA, 2006), financial forecasts may be prepared as the output of a formal system. A formal system consists of a set of related policies, procedures, methods, and practices that are used to prepare the financial forecast, monitor attained results relative to the forecast, and prepare revisions to, or otherwise update, the forecast. Moreover, *Use of Cash Flow Forecasts in Operations* (GFOA, 2008) notes that a government's forecast preparation process should be organization-wide, and all operating departments should be involved in developing reasonable expectations of planned expenditures. Collaborative forecasting allows for more accurate measurement and prioritization, relative to governmental goals, of likely resource inflows and outflows.

- **A budgeting procedure:** A formal budget procedure should be developed in a manner that supports the goals and objectives identified in the District's strategic plan. *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (GFOA, 1998) recommends that governments develop budgets that are consistent with approaches to achieve goals, and that they include performance measures. Some of these performance measures should document progress toward achieving previously developed goals and objectives, as defined by the government-wide strategic plan. Furthermore, GFOA recommends that governments provide opportunities for stakeholder input into the budget. This helps ensure that stakeholder priorities are identified and considered, which enhances support for the approved budget.
- **A payroll procedure:** Formal written payroll procedures can help ensure consistent practices by describing in detail the process or steps taken in order to accomplish a task. Southeast Local School District in Wayne County, Ohio provides a manual for payroll policies and procedures on its web site. This manual includes information for new employees, pay schedules for the school year, time sheet instructions, explanations of mandatory deductions, and contact information for payroll related issues. Payroll manuals can also include procedures for processes such as reporting substitute pay, requesting or changing direct deposit information, and requesting vacation or other leave.

While the recommended policies and procedures may not directly impact the overall academic programs and outcomes of the District, clearly defined administrative policies and procedures should help SLSD to improve the efficient use of resources and establish enduring management practices.

Forecasting and Reporting

R2.2 SLSD should ensure the Treasurer updates the District's five-year forecast when events occur that could significantly influence future expenditures or revenue. Updating the five-year forecast will help the District effectively plan for future needs and goals and respond to unexpected events. SLSD should include the update process in its forecasting procedures (see R2.1) to ensure that those involved in forecast preparation understand the circumstances that require information to be updated.

The Treasurer prepared SLSD's October 2008 five-year forecast using a variety of methodologies, historical trends, and other information available. However, after its October forecast was submitted to ODE, the District's November levy failed. The Treasurer had projected this new revenue and included it in the forecast. After the failure of the November levy, the Board approved \$342,000 in reductions to take place in FY 2008-09 and FY 2009-10. Although the Board and administration were aware of the savings from these reductions and documented anticipated changes, the Treasurer did not update the five-year forecast to illustrate the long-term cumulative effect of these actions to the Board.

The auditing and accounting guide, *Prospective Financial Information* (AICPA, 2008), states that while it is not usually expected that forecasts be updated, there may be situations where updating would be appropriate. Specifically, if material events occur, the responsible party should consider whether it is appropriate to issue an updated financial forecast. ODE also encourages school districts to update their forecasts when events take place that will result in significant changes.

Information which forms the basis for the five-year forecast projections is based on circumstances and conditions existing at the time the projections are prepared. Changes in District conditions after the submission of the forecast could significantly change the projected outcomes. The Treasurer should update the five-year forecast when significant events occur in order to illustrate to the Board and the community the positive and negative long-term effects of internal and external changes. Updating the forecast will ensure the Board is properly informed when significant adjustments affect the long-term financial outlook of the District.

R2.3 When preparing its five-year financial forecast, SLSD should seek to enhance the assumptions by considering different financial scenarios and the effect of these scenarios on individual line items. Sound and descriptive assumptions will help the Board and District residents better understand the forecast and make more informed decisions. In addition, supporting documentation should be retained for

the forecast and assumptions to document methodologies that may be used in future forecasts.

SLSD's forecast assumptions contain line-by-line explanations of revenue and expenditure projections. Forecast assumptions are posted on the ODE web site. The Treasurer includes sufficient descriptions to explain the methodology he used for projecting each line item. However, the assumptions do not include scenario-type explanations to illustrate what may happen if conditions or future expectations are altered. Also, the Treasurer does not retain documentation, such as emails or calculations of historical trends, to support the methodology taken when forecasting revenue and expenditures.

The auditing and accounting guide, *Prospective Financial Information* (AICPA, 2008), states that the disclosure of significant assumptions is essential to the reader's understanding of the financial forecast. The basis or rationale for the assumptions should be disclosed to assist the user of the financial forecast in understanding the presentation and making an informed judgment about it. In addition, the responsible party should identify which assumptions in the projection are hypothetical. Particularly sensitive assumptions are those having a relatively high probability of variation that would materially affect the financial forecast. One example of a particularly sensitive assumption might involve the potential effects of legislation.

Furthermore, the *Auditor of State's Best Practices* (AOS, Spring 2004) outlines some common problems and typical recommendations for enhancement of five-year forecasts. Best practice forecasts are accompanied by explanations of each assumption, which often include supporting documentation. Supporting documentation may include trend analyses, expert opinion, or other critical information.⁹

While SLSD's Treasurer includes adequate descriptions of the methodologies used for projecting each forecast line, explanations regarding the effect potential scenarios may have on District revenue and expenditures are not always included. For example, the Treasurer projected new revenue from the passage of an earned income tax operating levy. The assumptions did not include statements regarding the effect the levy failure would have on the District. Expanding the formal written forecast assumptions by including scenarios will provide decision makers with useful and explicable information. Retaining documentation used to calculate estimated revenue and expenditures is another useful tool to support the District's forecast and assumptions for future forecasting efforts.

⁹ For the full publication see:

www.auditor.state.oh.us/Publications/BestPractices/BestPractices_Vol1Issue1_Spring%202004.pdf

Financial planning can provide a short-term vision of future financial activity. However, the vision is limited because of unexpected economic changes that may occur. Incorporating potential scenarios into written assumptions, such as the effect of a levy failure or changes in expenditure trends, will provide SLSD, the Board, and stakeholders with additional information helpful in illustrating future financial fluctuations and devising appropriate solutions in a timely manner.

R2.4 SLSD should ensure that all revenue and expenditures are consistently recorded in compliance with the Uniform School Accounting System (USAS). Ensuring that revenue and expenditures are accurately reported will help the District make better use of its own data, while at the same time, ensuring that other agencies have the most accurate information available for analysis.

Auditors noted that SLSD had classified one area of expenditures in a manner that was contrary to USAS code definitions (see **Table 2-2**). The District's payments to the Greene County ESC were coded as dues and fees (object level 800). However, the payments represent contracted special education services provided by the ESC, rather than dues or other contributions to support the ESC's operations. As such, the expenditures should have been coded as purchased services (object level 400). The Treasurer explained that this was the methodology for recording ESC expenditures when he arrived at the District six years ago and he has not changed it. He acknowledged that this expenditure would be better represented in the purchased services object code, and he plans to make the adjustment. In addition, the District had difficulty identifying and correctly classifying special needs costs, which resulted in under-reporting special needs transportation expenditures in cost reports (T-2 reports) submitted to ODE (see **R5.3 in transportation**).

According to the USAS manual, by selecting the most appropriate code within each required dimension, each financial transaction of a district will be adequately identified. The use of certain dimensions to identify each type of financial transaction is the responsibility of school district management. The determination should consider the informational needs of the school district, ODE, and other regulatory agencies.

If SLSD continues to code ESC charges inappropriately, the District's financial information will be inaccurate and of limited use to the District and State agencies. In responding to its financial condition, District officials rely on this information to identify areas where spending can be reduced. Adjusting the coding practices for ESC payments will help the District to further define expenditures and the specific types of services purchased, which will provide the District with an accurate record of expenditures and means to conduct useful comparisons. When object codes are changed, the District should also ensure these changes are also reflected in the appropriate line items in its five-year forecast, and accurately explained in the assumptions (see **R2.3**)

Communication

R2.5 SLSD should expand its web site to provide additional relevant financial information to parents, the community, and other stakeholders, such as property tax information and historical costs per pupil. Making more financial information readily available on its web site would be a relatively inexpensive way to help the public better understand the District's financial condition, and could help increase community support and garner the additional stakeholder feedback necessary for effective management.

SLSD's web site contains a range of information about the District, including contact information, school calendars, individual school pages, current events, and publications including *The Bridge*. The Treasurer's Office page contains contact information for employees and links to financial reports, including the five-year forecast, forecast assumptions, CAFR, and PAFR.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government should publish its budget documents and its comprehensive annual financial report directly on its web site. Furthermore, GFOA notes that a government effectively using its web site can realize a number of benefits, including increased public awareness, increased public use of the information, and availability of information for use in public analysis.

Several Ohio school districts use web sites to provide stakeholders with key information pertaining to district operations. For example, Westerville City School District's web site provides Board policies, meeting minutes and agendas, presentations, and goals; its FY 2008-09 tax budget and five-year forecast; historical financial reports; property tax, millage, and valuation information; historical costs per student; and a glossary of school financial terms. Wayne Trace Local School District's web site includes an annual financial report illustrating funding sources and containing comparisons to neighboring school districts, as well as expenditures by object and function. Finally, Lebanon City School District publishes monthly financial reports on its web site, including expenditures to date, its current budget, historical comparisons by object, historical revenue and expenditure charts, salaries and benefits as percentages of revenue, and bank reconciliations.

Although SLSD's web site includes an assortment of useful information and resources, it could be expanded to include additional financial information and documents recommended by GFOA and observed on other Ohio school district web sites. Expanding the web site to incorporate financial information such as the tax budget and levy information would help better educate the public about the District's financial situation and potentially increase public awareness and support for different program and funding

strategies. With the elimination of the annual CAFR and the reduction of the number of *The Bridge* publications in the December 2008 reductions, the District could include some of the financial data from these documents – such as the revenue structure, expenditure breakdown, and levy questions and answers – on its web site.

Strategic Planning

R2.6 SLSD should enhance its strategic plan by developing measurable targets for each goal. Defined performance measures will help the District envision concrete milestones for achievement and determine whether strategic goals are being met. Furthermore, the District should communicate its strategic plan, goals, and performance measures with stakeholders. Sharing and promoting its strategic vision for educational programs and operational areas may help increase community support.

SLSD's strategic plan, developed in 1997, is updated annually and includes the District's mission statement, belief statements, and five key strategic goals. The District plans to amend its current strategic plan to develop new goals and strategies reflective of recent changes in internal and external conditions.

Recommended Practice on the Establishment of Strategic Plans (GFOA, 2005) advocates that all governments develop strategic plans in order to provide long-term perspectives for service delivery and budgeting, thus establishing logical links between spending and goals. The focus of a strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. In preparing the strategic plan, GFOA recommends the development of measurable objectives and inclusion of performance measures. Performance measures should be expressed as quantities, or at least as verifiable statements, and should ideally include timeframes. Performance measures provide information on whether goals and objectives are being met, and serve as important links between the goals in the strategic plan and the activities funded in the budget. GFOA recommends performance measures:

- Be based on program goals and objectives that tie to a statement of program mission or purpose;
- Measure program results or accomplishments;
- Provide for comparisons over time;
- Measure efficiency and effectiveness;
- Be reliable, verifiable, and understandable;
- Be reported internally and externally;
- Be monitored and used in decision making processes;

- Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs; and
- Be designed to motivate staff at all levels to contribute toward organizational improvement.

While the District's strategic plan is structured with strategies and action plans to bridge the gap between present conditions and future goals, it lacks a detailed performance benchmark system to measure progress over time. A performance measurement system incorporated into the District's updated strategic plan will provide concrete targets and enable the District to effectively measure past performance.

Ultimately, an updated strategic plan, along with development of a performance measurement process, will help SLSD gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing finances with its educational mission. In addition, enhancing its efforts to communicate its strategic goals and vision may help increase community involvement, understanding, and support. The District should also consider using its web site as a tool to communicate its strategic plan (see R2.5).

Purchasing

R2.7 SLSD should develop a District-wide purchasing manual to ensure adherence to Board policies and to promote consistency in all purchasing applications. The manual should include specific procedures for requisitioning, approving, and making purchases for the District.

SLSD has informal purchasing practices that include appropriate oversight. The process employs a multi-copy paper requisition form and a multi-level approval process to ensure the appropriateness of purchases. Employees submit requisitions to their respective building principals or department supervisors, who must approve them before sending them to the central office. The Superintendent then approves them and the Treasurer assigns them account numbers before the orders are placed by the Treasurer's Office staff.

The District also has credit cards for specific suppliers that employees can use for purchases. In this case, employees sign out the credit card, complete a requisition form, make the purchase, and bring in the receipt. The Treasurer's Office keeps a record of all credit card use and reconciles monthly statements. While SLSD's documentation reflected consistency in its practices, its procedures for purchasing are not formally documented.

SLSD adopted its policies from NEOLA, including the financial policies related to purchasing, such as use of credit cards, vendor relations, cooperative purchasing, and bidding. According to NEOLA, each statement of policy delegates to the Superintendent the responsibility to develop administrative guidelines or procedures for proper policy implementation. Developing effective operating procedures can increase overall productivity.

While policies establish what an organization requires, procedures describe how policies will be carried out or implemented. According to *Introduction to Public Procurement* (NIGP, 2009), procedure manuals are written in detail, intended not just to provide guidance but also to set out the forms, process requirements, and steps for each procurement action. A procedure manual is best structured in exactly the same sequence as the procurement cycle, detailing each step in the process and showing the forms to be used, the information required, and the standard length of time necessary to complete any step in the process. This facilitates operational planning and provides benchmarks for monitoring the process. Procedure manuals should be tailored to meet agency requirements and, at a minimum, should include:

- Procurement goals, objectives, and responsibilities;
- Step-by-step outlines of the procurement process, including the processing of requisitions, solicitations, bid evaluation and awards, preparation and issuance of purchase orders and contracts, follow-up, and contract administration;
- Guidelines and steps for client departments for preparing procurement requisitions, developing specifications, receiving and inspecting, and reporting and documenting vendor performance;
- Step-by-step outlines of the property and supply management programs, including inventory control and management and the transfer or disposal of surplus property;
- Other special procedures, such as a description of a cooperative purchasing program, how to process invoices for payment, and how to process call-ups against term contracts and blanket purchase orders; and
- Listing of the important forms used in the procurement process, instructions to bidders and general conditions governing contracting, and a glossary of procurement terms used in the manual.

The manual should be written for the guidance of both the procurement staff and those people in user departments who are charged with initiating requisitions. It is good practice to make direct reference to, and in some cases include a copy of, the enabling regulation or policy in a procedure manual. Procedure manuals sometimes include process flow charts to portray the flow of forms and information through the procurement process.

Some Ohio school districts have developed procedure manuals to guide staff through the purchasing process and ensure regulations and district policies are adhered to. For example, Miami East Local School District in Miami County has a requisition and purchase order handbook that includes references to ORC statues for purchase order authorization; detailed procedures for purchase orders, emergency purchases, and online requisitions; USAS coding definitions; and sample forms.

While some of the items recommended by NIGP are present in existing policies, SLSD does not have formal procedures in place to guide employees in requisitioning and purchasing. The development, approval, and distribution of a purchasing manual would help the Board, Treasurer, and Superintendent clarify the District's official position on all purchasing matters.

Formal procedures would help ensure that all purchases are completed in a manner consistent with Board policies and provide better control over funds dedicated to supplies and materials. A purchasing manual would help ensure that District personnel follow proper procedures for determining optimal vendors, maximizing services from purchasing consortiums, and continually reevaluating vendors and consortiums to ensure purchasing practices are in line with District goals.

Payroll

R2.8 SLSD should implement the Miami Valley Educational Computer Association's (MVECA) Human Resources Kiosk (HR Kiosk) application. Implementing the HR Kiosk would increase efficiency in a number of processes, most notably in the employee leave use and approval process. In addition, SLSD should include the HR Kiosk processes within its formal payroll procedures (see R2.1) to ensure employees understand the system and to provide a more effective transition from the current process.

During the course of the audit, the District has implemented several modules of the HR Kiosk system, including leave accruals and usage, payroll, and attendance functions.

SLSD's payroll system is exception-based, meaning that contracted daily hours for all employees are entered into the payroll system at the beginning of the school year, and the Treasurer's Office manually adjusts for employee overtime and leave usage throughout the year. The District requires pre-approval of personal, professional, and vacation leave for which employees submit leave request forms to appropriate building principals or department supervisors. While employee bargaining agreements outline the process for requesting and reporting leave, the District does not have written procedures for payroll operations.

In addition to developing formal procedures (see **R2.1**), other opportunities exist to enhance the payroll process. The HR Kiosk is an online tool available through the State Information Technology Centers (ITC), and it is currently free of charge to member school districts. MVECA is a participant in this application and the software is currently available to SLSD at no cost. HR Kiosk allows for a number of payroll operations (both employee and administrative) to be carried out online. Some examples of applications include posting and approving employee leave requests, employee personnel information, employee profiles, job posting capabilities, job application tracking, individual professional development plans, district calendars, and job performance reviews. The HR Kiosk software is relatively new, and while SLSD is aware of its availability, the District has yet to inquire about implementing it. MVECA indicated that it would provide technical assistance to SLSD in setting up the system and getting started.

Once implemented District-wide, leave requests could be reviewed and approved online, so no paper forms would be needed. Approved exceptions would be automatically updated in the payroll system so employees would not need to fill out paper request forms and the Treasurer's Office could cease manually entering the leave adjustments.

Implementing the HR Kiosk system would help SLSD increase efficiency in its payroll process through the reduction of data entry time and the elimination of paper forms. Once fully implemented, the District would be able to more accurately assess and track the entire payroll process, as well as other HR functions such as professional development and employee performance reviews. Providing employees with formal written procedures for all payroll aspects, including the HR Kiosk system, will help SLSD communicate these procedures with staff.

R2.9 SLSD should implement the performance audit recommendations contained in this and other report sections to help offset projected deficits and assist in maintaining positive year-end fund balances through FY 2012-13. Enhancing general operating revenue and/or identifying additional savings beyond those included in this performance audit would allow the District to improve its overall financial condition in the future and assist in addressing changing circumstances.

In order to address the projected deficit, SLSD must make reductions in its expenditures, generally through reductions in staff and program operations. **Table 2-5** demonstrates the effect of the performance audit recommendations on the May five-year financial forecast and ending fund balances, assuming that all recommendations contained in this audit are implemented. Full implementation of the performance audit recommendations is projected to result in a positive fund balance in FY 2012-13 of approximately \$3.3 million subject to the passage of the 5.5 mill replacement levy. The levy was approved by the Board at the board meeting on May 18, 2009. Without the passage of the 5.5 mill

replacement levy, SLSD will need to generate an additional \$1 million in cost reductions annually beginning in FY 2009-10 to maintain its solvency.¹⁰

During the course of this audit, House Bill 1 (HB1) was enacted into Ohio law on July 17, 2009. This Bill contains substantial changes to the school funding formula and educational requirements for Ohio school districts and will impact the District's future revenues and expenditures. SLSD is encouraged to monitor the effects of the new law and incorporate updated information into its forecast as it becomes available.

¹⁰ A cost reduction of \$1 million would equate to approximately 15 or 16 regular education teachers. Reductions at this level would result in a District-wide student teacher ratio of 23.6:1.

Table 2-5: Financial Recovery Plan (in 000s)

	Actual			Forecast				
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Revenue:								
General Property Tax	\$10,241	\$11,517	\$12,524	\$12,535	\$13,062	\$13,572	\$13,801	\$14,030
Tangible Personal Property Tax	\$1,492	\$1,331	\$454	\$263	\$250	\$250	\$250	\$250
Unrestricted Grants-in-Aid	\$6,413	\$6,140	\$6,139	\$6,130	\$6,130	\$6,007	\$6,007	\$6,007
Restricted Grants-in-Aid	\$13	\$25	\$14	\$41	\$40	\$40	\$40	\$40
Property Tax Allocation	\$1,291	\$1,871	\$1,981	\$2,052	\$1,770	\$1,516	\$1,536	\$1,557
Other Revenue	\$1,073	\$944	\$799	\$715	\$730	\$730	\$730	\$730
Total Other Financing Sources	\$77	\$0	\$773	\$1,038	\$25	\$25	\$25	\$25
Total Rev. and Other Fin. Sources	\$20,600	\$21,829	\$22,684	\$22,774	\$22,007	\$22,140	\$22,389	\$22,639
Expenditures:								
Personal Services	\$12,507	\$13,490	\$14,037	\$14,068	\$13,868	\$14,560	\$15,070	\$15,597
Fringe Benefits	\$4,013	\$4,276	\$4,317	\$4,600	\$4,700	\$5,076	\$5,482	\$5,921
Purchased Services	\$1,620	\$1,998	\$2,047	\$2,100	\$2,010	\$2,060	\$2,112	\$2,165
Supplies and Materials	\$740	\$783	\$878	\$700	\$550	\$575	\$600	\$625
Capital Outlay	\$137	\$108	\$171	\$45	\$45	\$125	\$125	\$125
Debt Service:								
Principal – HB 264 Loan	\$0	\$0	\$0	\$1,000	\$0	\$0	\$0	\$0
Principal – Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Expenditures	\$854	\$891	\$1,228	\$1,300	\$1,140	\$1,197	\$1,257	\$1,320
<i>AOS Recommendations</i>					<i>(\$651)</i>	<i>(\$677)</i>	<i>(\$705)</i>	<i>(\$735)</i>
Total Operating Expenditures	\$19,871	\$21,546	\$22,678	\$23,813	\$21,662	\$22,916	\$23,941	\$25,018
Total Other Financing Uses	\$96	\$768	\$16	\$38	\$25	\$25	\$25	\$25
Total Exp. and Other Fin. Uses	\$19,967	\$22,314	\$22,694	\$23,851	\$21,687	\$22,941	\$23,966	\$25,043
Result of Operations	\$633	(\$485)	(\$10)	(\$1,077)	\$320	(\$801)	(\$1,577)	(\$2,404)
Beginning Cash Balance	\$164	\$797	\$312	\$302	(\$775)	(\$455)	(\$1,256)	(\$2,833)
Ending Cash Balance	\$797	\$312	\$302	(\$775)	(\$455)	(\$1,256)	(\$2,833)	(\$5,237)
Encumbrances	\$83	\$125	\$179	\$0	\$0	\$0	\$0	\$0
Ending Fund Balance	\$714	\$187	\$123	(\$775)	(\$455)	(\$1,256)	(\$2,833)	(\$5,237)
Property Tax - Renewal or Replacement	\$0	\$0	\$0	\$0	1,200	\$2,389	\$2,450	\$2,500
Cumulative Balance of Replacement/Renewal Levies	\$0	\$0	\$0	\$0	\$1,200	\$3,589	\$6,039	\$8,539
Fund Balance June 30 for Certification of Contracts, Salary Schedule, Other Obligations	\$714	\$186	\$123	(\$775)	\$745	\$2,333	\$3,206	\$3,302

Source: SLSD May 2009 forecast, AOS

Table 2-6 summarizes the performance audit recommendations reflected in the revised five-year forecast. With the implementation of these recommendations and passage of a replacement levy in August 2009, it is projected that SLSD could maintain a positive fund balance through FY 2012-13.

Table 2-6: Summary of Performance Audit Recommendations (in 000s)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Recommendations Not Subject to Negotiation				
R3.2 Reduce office/clerical staff by 1.0 FTE	\$39	\$41	\$43	\$46
R3.4 Discontinue employee share of retirement contribution for administrative staff	\$102	\$104	\$107	\$109
R4.2 Close Sugarcreek Elementary	\$68	\$70	\$71	\$73
R4.6 Implement energy conservation program	\$87	\$89	\$91	\$93
R4.7 Reduce custodial overtime to 2%	\$14	\$14	\$15	\$15
R5.6 Reduce 8 active buses	\$233	\$244	\$256	\$269
Total Cost Savings Not Subject to Negotiation	\$543	\$562	\$583	\$605
Recommendations Subject to Negotiations				
R3.3 Increase employee health insurance contribution to 15%	\$108	\$115	\$122	\$130
Subtotal Cost Savings Subject to Negotiations	\$108	\$115	\$122	\$130
Total Cost Savings from Performance Audit Recommendations	\$651	\$677	\$705	\$735

Source: AOS performance audit recommendations

Table 2-7: Summary of Performance Audit Recommendations for the Food Service Fund (in 000s)

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
R6.2 Require Contractor to meet NFSMI benchmarks and reduce labor costs	28	\$29	\$30	\$30
R6.4 Increase participation closer to peer average	\$43	\$44	\$45	\$46
Total Other Recommendations	\$71	\$73	\$75	\$76

Source: AOS performance audit recommendations

This page intentionally left blank.

Human Resources

Background

This section of the performance audit focuses on the human resource (HR) functions of Sugarcreek Local School District (SLSD or the District). Operations were evaluated against leading practices, industry standards, and selected peer districts.¹ Comparisons were made for developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings to assist the District in its efforts to address projected deficits. Recommended practices and industry standards were drawn from sources including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the State Employment Relations Board (SERB), and the Ohio Department of Administrative Services (DAS).

Organizational Structure and Function

SLSD's Superintendent is the chief executive officer of the District and, as noted in his job description, the primary professional advisor to the Board. The Superintendent's Office is responsible for administration, management, and supervision of the school system. The Superintendent's duties include working with the Board, Treasurer, Business Manager, and administrators to determine and maintain adequate resources for an optimal educational program for students. In addition, he recommends employees for appointment, demotion, transfer, or dismissal, and supervises and oversees negotiations and the formulation of salary schedules for all employees of the Board.

The Business Manager reports directly to the Superintendent in areas for which he is responsible, such as the organization and supervision of food services. His HR-related functions include advising the Superintendent about transportation, maintenance, and food service contracts and services. The Treasurer's Office consists of the Treasurer, two full-time Assistants to the Treasurer, and an Accounting Technician. Its HR-related responsibilities include employee benefits, employee contracts, and payroll.

Staffing

Table 3-1 illustrates staffing levels at SLSD and the average of the peer districts as reported to ODE through the Education Management Information System (EMIS) for FY 2007-08.

¹ See **executive summary** for the full listing of the peer districts.

According to the FY 2007-08 EMIS instructions for reporting staff data (ODE, 2008), 1.00 full-time equivalent (FTE) is equal to the number of hours in a regular working day for that position, as defined by the district. The FTEs in **Table 3-1** have been presented on a per 1,000 student basis because staffing levels are partially dependent on the number of students served.² Thus, presenting staffing data in this manner lessens the impact of variances attributable to the size of the District and peers.

Table 3-1: FY 2007-08 Staffing and FTEs per 1,000 Students

	SLSD		Peer Average		Difference	
	FTE Staff	FTEs/1,000 Students	FTE ⁴ Staff	FTEs/1,000 Students	FTE Staff	FTEs/1,000 Students
Administrative Personnel	12.5	5.0	28.8	5.2	(16.3)	(0.2)
Office/Clerical	18.3	7.3	37.0	6.8	(18.7)	0.5
Classroom Teachers¹	114.0	45.3	283.4	49.6	(169.4)	(4.3)
Special Education Teachers	16.8	6.7	56.9	9.9	(40.1)	(3.2)
Educational Service Personnel²	18.9	7.5	48.6	8.8	(29.7)	(1.3)
Other Certificated Staff³	8.7	3.5	19.2	3.4	(10.5)	0.1
Teacher Aides	16.3	6.5	39.8	7.6	(23.5)	(1.1)
Other Technical/Professional Staff⁴	9.5	3.8	11.3	2.0	(1.8)	1.8
Other Student Services⁵	3.0	1.2	51.4	6.9	(48.4)	(5.7)
Operations⁶	49.5	19.7	146.6	26.0	(97.1)	(6.3)
Total Staffing	267.5	106.4	723.0	126.1	(455.5)	(19.7)

Source: SLSD and peer FY 2008-09 staffing data as reported to ODE

¹ Includes regular and vocational teachers and permanent substitutes.

² Includes ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

³ Includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁴ Includes library staff, computer support staff, and other professional staff.

⁵ Includes other student services such as psychologists, speech and language therapists, practical nurses, and attendants.

⁶ Includes operational staff such as maintenance personnel, bus drivers, food service staff, and monitors.

As illustrated in **Table 3-1**, SLSD's total number of FTEs per 1,000 students is lower than the peer average by 19.7 FTEs. Based on SLSD's student population of 2,331, this variance equates to approximately 45 FTEs. Staffing is higher than the peers on a per 1,000 student basis in the following categories:

- **Office/Clerical Staff:** This category includes Clerical, Bookkeeping, Record Managing, Accounting, Messenger, Telephone Operator, Attendance Officer, Other Office Clerical, and Parent Mentor personnel (see **R3.2**).

² Reflects students receiving educational services from SLSD and excludes the percent of time students are receiving educational services outside of the District. This student count is used throughout the HR section of the performance audit unless otherwise noted.

- **Other Technical/Professional Staff:** The District is above the peer average by 1.8 FTEs per 1,000 students, which is attributed to the computer operator position. This position constitutes a 1.64 FTE difference between SLSD and the peer average.

In addition to peer average comparisons on a per 1,000 student basis, staffing levels were compared with State minimums, recommended practices, and national standards in the areas where additional benchmarks were available. **Table 3-2** illustrates these comparisons.

Table 3-2: SLSD Staffing, State Minimums, and Recommended Practices

Certificated Personnel FTEs	SLSD	State Minimum	Difference
Principals/Assistant Principals ¹	6.33	4.0	2.33
Regular Teachers ²	113.4	93.3	20.1
Educational Service Personnel (ESP) ³	18.9	11.7	7.2
Classified Personnel FTEs	SLSD	Recommended Practice ⁴	Difference
Maintenance Workers	2.9	6.1	(3.2)
Custodians	18.2	18.0	0.2
Bus Drivers (Based on Active Buses) ⁵	38.0	19.0	21.0

Source: SLSD FY 2008-09 staffing levels, State minimum ratios, and recommended practices

¹ OAC § 3301-35-05 requires school districts to provide every school with the services of a principal. Schools with 15 or more FTE teachers require a full time principal. The OAC does not require districts to provide the services of assistant principals.

² OAC § 3301-35-05 requires school districts to maintain district-wide student-to-teacher ratios of at least 1.0 classroom teacher FTE for every 25 students in the regular student population.

³ OAC § 3301-35-05 requires that school districts employ a minimum of 5.0 ESP FTEs for every 1,000 students in the regular student population. These ESPs must be assigned to at least five of the eight following areas: counselor, library media specialist, school nurse, visiting teacher, social worker, elementary art, music, and/or physical education.

⁴ American School and University's *Maintenance and Operations Cost Study* recommended maintenance FTEs per square foot, National Center for Education Statistics custodian FTEs per square foot, and the American Association of School Administrators' riders per bus.

⁵ While SLSD reports 21 FTEs in this category, the assessment is based on active buses and therefore actual employees are shown in the table.

Although SLSD staffing per 1,000 students is below the peer average, **Table 3-2** shows that SLSD is above State minimums and recommended practices in some areas. While it is not a common practice for Ohio school districts to operate at State minimum standards for certificated personnel, the comparison illustrates that the District has additional options if future reductions become financially necessary. A detailed analysis of maintenance workers and custodians is provided in **facilities** and captures the specific industry benchmarks and workload measures for these functional areas. Also, an analysis of recommended riders per bus is provided in **transportation**, and it provides a benchmark for the optimal number of bus routes and drivers for the District.

Compensation

Although SLSD's total FY 2008-09 General Fund wages per student were below the peer average (see **finance and strategic management**), the District's FY 2008-09 compensation levels were analyzed to determine if potential savings existed. **Table 3-3** illustrates SLSD's and the peers' average salaries on a per student basis.

Table 3-3: SLSD and Peer Average Salaries for FY 2008-09

	SLSD	Peer Average	Difference
Administrators	\$92,437	\$85,368	8.3%
Office/Clerical	\$33,218	\$35,271	(5.8%)
Classroom Teachers ¹	\$60,069	\$59,198	1.5%
Special Education Teachers	\$62,168	\$54,847	13.3%
Education Service Personnel ²	\$60,116	\$64,169	(6.3%)
Other Certificated Staff ³	\$60,382	\$60,291	0.2%
Teacher Aides	\$19,154	\$19,580	(2.2%)
Other Technical/Professional Staff ⁴	\$35,822	\$35,540	0.8%
Other Student Services ⁵	\$56,552	\$42,514	33.0%
Operations ⁶	\$28,075	\$24,173	16.1%

Source: SLSD and peer FY 2008-09 staffing data as reported to ODE

Note: Springboro CSD was not included in the peer district average due to the way in which FTE's were coded and supplements were paid.

¹ Includes regular and vocational teachers and permanent substitutes.

² Includes ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

³ Includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁴ Includes library staff, computer support staff, and other professional staff.

⁵ Includes other student services such as psychologists, speech and language therapists, practical nurses, and attendants.

⁶ Includes operational staff such as maintenance personnel, bus drivers, food service staff, and monitors.

Because factors outside management's direct control, such as geographic location and surrounding district competition, can affect employee compensation, a second salary comparison was performed. Auditors compared SLSD's average salaries with a select group of districts, referred to as the surrounding districts.³ **Table 3-4** compares SLSD's FY 2008-09 salaries with the average of the surrounding districts.

³ The surrounding districts used in the salary comparisons include Kettering CSD and Centerville CSD in Montgomery County, Wayne LSD in Warren County, and Xenia CSD and Beavercreek CSD in Greene County.

Table 3-4: FY 2008-09 SLSD and Surrounding District Average Salaries

	SLSD	Surrounding District Average	Difference
Administrative Personnel	\$92,437	\$89,270	3.5%
Office/Clerical	\$33,218	\$39,580	(16.1%)
Classroom Teachers ¹	\$60,069	\$59,548	0.9%
Special Education Teachers	\$62,168	\$55,724	11.6%
Education Service Personnel ²	\$60,116	\$62,038	(3.1%)
Other Certificated Staff ³	\$60,382	\$63,079	(4.3%)
Teacher Aides	\$19,154	\$21,419	(10.6%)
Other Technical/Professional Staff ⁴	\$35,822	\$35,691	0.4%
Other Student Services ⁵	\$56,552	\$36,233	56.1%
Operations ⁶	\$28,075	\$27,674	1.4%

Source: SLSD and peer FY 2008-09 staffing data as reported to ODE

¹ Includes regular and vocational teachers and permanent substitutes.

² Includes ESP teachers, counselors, librarians, registered nurses, social workers, and visiting teachers.

³ Includes curriculum specialists, remedial specialists, tutor/small group instructors, and other professionals.

⁴ Includes library staff, computer support staff, and other professional staff

⁵ Includes other student services such as psychologists, speech and language therapists, practical nurses, and attendants.

⁶ Includes operational staff such as maintenance personnel, bus drivers, food service staff, and bus monitors.

While **Table 3-3** and **Table 3-4** use different benchmarks, both show SLSD's salaries to be higher in certain areas.

- **Administrators:** SLSD's administrator salaries were 8.3 percent above the peer average and 3.5 percent above the surrounding district average. These wages do not include the retirement pick-up benefit, through which the Board pays all or a portion of the employee's share of retirement contributions for all District administrators. This benefit is occasionally offered to school administrators in lieu of higher salaries (see **R3.4**).

Reductions approved by the Board on May 18, 2009 included a one-year salary freeze for administrators for FY 2009-10 and a two-year salary freeze for principals for FYs 2009-10 and 2010-11.

- **Special Education Teachers:** SLSD's special education teacher salaries were 13.3 percent above the peer average and 11.6 percent above the surrounding district average. The District's special education teachers have an average of 14.5 years of experience, and most have Master's degrees, leading to higher salaries (see **R3.8**).
- **Other Student Services:** Average salaries for the other student services classification were 33.0 percent higher than the peer districts and 56.1 percent higher than the surrounding districts. The District does not employ teacher attendants (a category that typically receives relatively low wages). Therefore, although the two highest earning

positions in this classification, psychologist and speech and language therapist, both receive lower wages than the surrounding districts, the overall average salary for the other student services category is higher.

Benefits

SLSD offers medical, prescription, and dental coverage to its employees. Full-time employees contribute 10 percent of premium costs, while the Board covers the remaining 90 percent. Part-time employees are also eligible for insurance coverage, but at a higher employee contribution rate. Employees working fewer than 35 hours per week contribute to the premium based on the percentage of hours worked.

SLSD’s total premium amounts were compared with benchmarks from the OEA, the Kaiser Family Foundation (Kaiser), and SERB. **Table 3-5** illustrates these comparisons.

Table 3-5: SLSD and Benchmark Medical Insurance Premiums

	SLSD	OEA	SLSD % Difference from OEA	Kaiser PPO	SLSD % Difference from Kaiser	SERB PPO	SLSD % Difference from SERB
Single	\$379.40	\$438.34	(13.4%)	\$420.00	(9.7%)	\$449.05	(15.5%)
Family	\$916.20	\$1,108.80	(17.4%)	\$1,131.90	(19.1%)	\$1,167.95	(21.6%)

Source: SLSD FY 2008-09 premiums and Kaiser, SERB, and OEA estimated FY 2008-09 average premiums

As illustrated in **Table 3-5**, SLSD’s premium amounts were below the averages reported to the OEA and SERB. The District expressed an understanding that increasing the employee contribution may become necessary to help address projected deficits (see **R3.6**).

Negotiated Agreements

The following collective bargaining agreements cover the District’s certificated and classified personnel:

Sugarcreek Education Association (SEA) OEA/NEA (Certificated Contract): covers all full-time and regular part-time certificated teachers, and is in effect through July 31, 2011.

Sugarcreek Local Association of Support Personnel (SLASP) OEA/NEA (Classified Contract): covers non-certificated employees, including the positions of mechanic, maintenance worker, custodian, secretary (non-confidential), bus driver, library media specialist, educational/special needs/transportation assistant, technology specialist, and discipline specialist. This contract is in effect through June 30, 2011.

The performance audit assesses certain contractual and employment issues, and compares those issues with Ohio law and industry benchmarks. Areas of analysis include common contractual provisions such as maximum sick leave accrual and payout at retirement, number of paid holidays, vacation accrual, and attendance incentives (see **R3.5**).

Human Resources Audit Objectives

The following is a list of the questions used to evaluate the HR functions at SLSD:

- Is the District's current allocation of personnel efficient and effective?
- Is the District's compensation package in line with other high performing districts, State averages, and industry practices?
- How do insurance benefits offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements in line with peers and leading practices?
- Does the District effectively address human resource management and has it created a working environment that enhances its workforce?
- Does the Board operate in an effective manner?
- Does the District provide special education programs for students with disabilities that maximize resources and are compliant with State and federal regulations?

Auditors determined that SLSD's employee wages per student were comparable to or below the peer averages.

Recommendations

Staffing

- R3.1 Although SLSD has annual administrative meetings to discuss staffing levels for the upcoming year, the District should develop a formal staffing plan to address current and future staffing needs. In doing so, SLSD should establish staffing allocations for administrative, certificated, and classified personnel. This will help ensure the District proactively addresses its staffing needs and complies with State and federal requirements. Likewise, the plan should illustrate how staffing and related costs impact the District's financial condition and overall mission.**

The District does not have a formal staffing plan. However, every year, starting in January or February, the District administrative team meets to discuss staffing levels for the upcoming year. The planning includes an evaluation of the average daily membership (ADM), programs, and consideration of budgetary constraints for the following year.

Strategic Staffing Plans (SHRM, 2002) notes that high performing organizations use staffing plans and systems to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision making in an organization. In addition, *Estimating Future Staffing Levels* (SHRM, 2006) maintains that the most important question for any organization is what type of workforce it will need in order to implement its business strategy successfully. Once this question is answered, the organization must focus on recruiting, developing, motivating, and retaining the number and mix of employees that will be required at each point in time.

Tulsa Public Schools (TPS) in Tulsa, Oklahoma has established a recognized leading practice staffing plan that incorporates state and federal regulations, workload measures, and industry benchmarks, as well as staffing levels determined by its administration. The plan outlines the allocation of regular and special education, administrative, other instructional, clerical, custodial, and food service staff. For example, food service staffing is determined using minimum target meals per labor hour calculations established by TPS. The plan bases custodial staffing levels on a calculation using the number of teachers, students, and rooms, and the total area of the buildings. The plan is used as a guide to determine staffing levels, and allows TPS to ensure compliance as well as provide staffing numbers to meet its needs efficiently.

Some Ohio schools, including Cincinnati City Schools in Hamilton County and Lakota Local School District in Butler County, have developed leading practice staffing plans as well. Cincinnati City Schools has developed a formal staffing plan that works to incorporate State requirements, contractual agreements, available resources, and

educational goals into a process that includes central and site-based administrators and personnel. The staffing plan, which is linked to the District’s student-based budgeting plan, employs a staffing template that includes recommended elements and serves as a planning tool for the District’s Instructional Leadership Teams.

Because SLSD has not established a formal staffing plan, the District faces an increased risk of inefficient staffing within its various operational areas. By implementing a staffing plan and updating the plan on an annual basis, SLSD will be better prepared to make changes to staffing levels in response to its operational needs and financial condition.

R3.2 SLSD should consider reducing staffing levels in the office/clerical classification by eliminating 1.0 FTE. This reduction would result in an office/clerical staffing level per 1,000 students that is comparable to the peer average.

The District eliminated 1.0 FTE in the May 18, 2009 Board-approved reductions.

Table 3-6 shows SLSD’s office/clerical staffing data and ratios compared with the peer averages.

Table 3-6: Office/Clerical Staffing Analysis ¹

	SLSD	Peer Average	Difference
Clerical Staff (FTE)	14.32	28.44	(14.12)
Administrative Assistants (FTE)	-	1.10	(1.10)
All Other Office Staff (FTE)	4.00	7.47	(3.47)
Total FTE Office/Clerical Staff	18.32	37.02	(18.70)
<hr/>			
Students Educated (FTE)	2,515.26	5,608.14	(3,092.88)
Clerical Staff per 1,000 Students	5.69	5.17	0.52
Admin. Assistants per 1,000 Students	-	0.21	(0.21)
All Other Office Staff per 1,000 Students	1.59	1.39	0.20
Total Office/Clerical Staff per 1,000 Students	7.28	6.77	0.51
<hr/>			
Total FTE Office/Clerical Staff Reduction Needed to Equal Peer Average			1.28

Source: Client and peer EMIS and SF-3 data

¹ FTE employees may have been adjusted based on interviews, and therefore may not match numbers reported in EMIS.

As illustrated in Table 3-6, the District reported 18.32 FTE office/clerical positions. This equates to 7.28 FTEs per 1,000 students, compared with the peer average of 6.77 FTEs per 1,000 students. When applied to the District’s number of students educated, this ratio amounts to 1.28 FTEs above the peer staffing level. Therefore, eliminating 1.0 FTE would bring the District’s office/clerical staffing level more in line with the peer average, and would provide the District the opportunity to reduce salary and benefit costs.

Financial Implication: By eliminating 1.0 FTE office/clerical position, the District could save approximately \$39,400 in salaries and benefits in FY 2010-2011.

Benefits

R3.3 The District should seek to renegotiate employee health insurance contributions to increase the single and family contributions from 10 percent to 15 percent. This would bring the District's contribution rates more in line with the Kaiser average. Increasing employee contributions would help SLSD reduce expenditures by lowering the District's portion of overall insurance costs.

SLSD offers medical insurance coverage to its employees. Full-time eligible employees contribute 10 percent of premium costs, and the Board covers the remaining 90 percent. Part time employees are also eligible for insurance coverage but at a higher employee contribution. Employees working fewer than 35 hours per week contribute to the premium based on the percentage of hours worked.

Auditors compared SLSD's employee premium contribution of 10 percent with average contributions reported in Kaiser's *Employer Health Benefits 2008 Annual Survey* and SERB's *2007 16th Annual Report on the Cost of Health Insurance in Ohio's Public Sector*. Kaiser reported average employee contributions of 16 percent for single coverage and 27 percent for family coverage in 2008. Employee contribution benchmarks reported by SERB include the following:

Average Percentage of Employee Contributions for State of Ohio Employees: 15.7 percent for single and 15.6 percent for family medical coverage;

Average Employee Contributions by School Districts (per ADM): 10.4% for single and 12.6% family coverage for schools with an ADM of 2,500 – 9,999;

Average Employee Contributions by School Districts (per region): 11.6% for single and 13.1% for family coverage in the Dayton region; and

Average Monthly Premiums and Employee Contributions (by covered employees): 11.8% for single and 12.7% for family for public employers with 500-999 employees.

SLSD's employee contribution percentage is lower than the Kaiser and SERB benchmarks. The District spent 7.6 percent of its General Fund expenditures on employee insurance in FY 2007-08. To help improve its financial condition and help offset the rising cost of health insurance, SLSD should seek a higher level of employee contribution.

Financial Implication: If SLSD renegotiated employee contributions to 15 percent, it would save approximately \$108,000 annually beginning in FY 2009-10. This assumes SLSD also makes the recommended staffing reductions. If it does not make staffing reductions, the savings would be slightly higher.

- R3.4 SLSD should consider discontinuing payment of the employee share of retirement contributions for all administrative staff. Covering the required employee contribution for 11 administrators is costly to the District, and this benefit is a form of compensation the Board is not required by law to provide. Eliminating this benefit will reduce expenditures and may allow the District to avoid reductions in other areas such as personnel, that may directly affect the education of students.**

The District eliminated these payments in the May 18, 2009 Board-approved reductions.

While SLSD's classified and certificated employees make required employee retirement contributions through salary reduction to the School Employees Retirement System (SERS) or State Teachers Retirement System (STRS), 11 administrators receive a fringe benefit where the Board contributes the employee share on their behalf.

Ohio law requires school employees to contribute 10 percent of their gross salaries to either STRS or SERS to help fund their retirement plans. Typically, employees pay this portion through the salary reduction method, where the payment is deducted from pre-tax earnings. However, there are two ways employers can pay selected employees' 10 percent contribution for them. The first method is referred to as "pick-up," and occurs when the employee contributions are paid by the district and not deducted from the employees' salary. The second method is referred to as "pick-up on the pick-up." This method provides an added benefit, where the employer pays an additional 10 percent of the employee contribution (for 11 percent of gross salary). For example, if an administrative employee earns \$100,000 per year, the Board pays the \$10,000 required employee contribution plus an additional \$1,000 (10 percent of \$10,000), for a total employee paid contribution of \$11,000. These contributions are in addition to the 14 percent employer contribution required of the District by law.

Nine senior-level SLSD administrators receive pick-up on the pick-up. These employees have 9 percent of the employees' 10 percent contribution picked up by the Board and the Board then pays an additional 9 percent on the 9 percent (9.81 percent). The Superintendent receives this benefit as well; however, the Board covers 10 percent of the contribution and pays an additional 10 percent on the 10 percent (11 percent total). The District also picks up the 10 percent employee contribution for the Treasurer but does not pay the pick-up on the pick-up. **Table 3-7** shows the retirement contributions made for these administrators.

Table 3-7: Administrator Retirement Contribution Percentages

	Employee Contribution	Board Pick-Up	Board Pick-up on the Pick-Up	Total Board Pick-up	Required Board Contribution	Total Retirement Contribution
Superintendent	0.00%	10.00%	10.00%	11.00%	14.00%	25.00%
Treasurer	0.00%	10.00%	0.00%	10.00%	14.00%	24.00%
Other Administrators	1.00%	9.00%	9.00%	9.81%	14.00%	23.81%

Source: SLSD payroll report

Paying the employee share of retirement contributions allows some districts to control administrative salary costs and attract administrative personnel by offering these fringe benefits in lieu of higher salaries. However, offering this benefit to employees can be costly. Because of SLSD’s financial condition, it should seek to renegotiate administrator salaries and terminate this benefit.

Financial Implication: Discontinuing the payment of the employee share of administrators’ retirement contributions could save the District about \$102,000 annually.

Collective Bargaining

R3.5 During future negotiations, SLSD should seek to renegotiate certain provisions of its employee bargaining agreements that exceed State minimums and recommended practices. These provisions limit SLSD’s ability to control costs and manage the District’s future financial condition. Successful negotiations to limit or remove these contract provisions would help SLSD reduce costs and improve operational efficiency.

As a component of the performance audit, certain provisions within SLSD’s certificated and classified bargaining agreements were compared with State minimum standards, recommended practices, and typical provisions in Ohio school district bargaining agreements. The following areas exceeded benchmark provisions:

- **Maximum sick leave accrual:** SLSD’s certificated and classified agreements allow employees to accrue a maximum of 295 days of sick leave for FY 2008-09, 315 days of sick leave for FY 2009-10, and 335 days of sick leave for FY 2010-11. This provision significantly exceeds the State minimum requirement of 120 days and represents the potential for increased financial liability when sick leave is paid out to retiring employees.
- **Maximum sick leave payout:** SLSD’s certificated and classified agreements provide severance payments equal to 25 percent of accumulated but unused sick leave accrued to employees who have been working in the District for 10 years.

These payout levels of 73.5, 78.75, and 83.75 days for certificated and classified employees for each respective fiscal year are higher than the State minimum of 30 sick days.

- **Paid holidays:** SLSD's classified agreement provides 11 or 12 month employees with 11 paid holidays, which is in excess of the 7 State required paid holidays. Providing classified employees with more holidays can have the effect of reducing overall productivity, as it reduces the overall number of days devoted to District operations.

Renegotiating certain provisions can be difficult because they are specified in the District's negotiated agreements, so changes need to be approved by the bargaining units. However, if successful, these adjustments would help reduce future financial liabilities and increase operational efficiency.

Human Resource Management

R3.6 SLSD should conduct annual surveys of its employees as a formal method to solicit feedback, gauge employee satisfaction, and assist the District in determining areas for improvement. The District should also consider community surveys as a way to measure community values and concerns, and to increase stakeholder involvement in the District.

The District solicits feedback from District residents every three years; however, it does not survey its employees or students. SLSD holds monthly administrative meetings from which administrators believe they get the necessary feedback from employees. The building principals also solicit feedback from parents through a monthly Parent Coffee (an open house event). However, SLSD does not have a formal method, such as a satisfaction survey, for employees to submit feedback on their work environments and other employment related conditions. Furthermore, it does have a mechanism to gauge the level of workplace satisfaction or obtain ideas and suggestions for improvement.

Soliciting Employee Feedback: Getting Results (National Business Research Institute, Inc.) suggests that employee surveys are the most effective way to tap into the thoughts of the workplace. By soliciting employee feedback and responding to their needs, a company may have higher retention rates, lower absenteeism, improved productivity, and better morale. NBRI also suggests that employee surveys include everyone and everything, be distributed in a timely manner with sufficient time for completion, and be analyzed to identify the overall themes and sub-themes. Finally, an organization should communicate the outcome of the survey results.

Without effective feedback on working conditions, the District may have trouble finding effective ways to improve employee morale. Lacking a formal method to solicit employee input may limit the District's ability to gather important feedback. Developing formal procedures for evaluating the employee work climate and community perceptions will provide valuable feedback, which will allow the District to target areas for future improvement. Surveys could be used to solicit overall satisfaction with District operations, specific department performance, or individual school and neighborhood issues.

SLSD should consider including the development and management of employee and community surveys on its web site to make the surveys more widely accessible. Employee and community survey results would provide the District with ideas, opinions, and suggestions to use when planning for future improvements.

R3.7 The SLSD Board should develop a policy for the completion of an annual evaluation of Board operations. This evaluation should be constructive, assess the Board's strengths and weaknesses, and be based on the goals the Board has established for itself. Each Board member should complete this evaluation independently, and then the Board, as a whole, should compare and discuss the results.

The SLSD Board does not regularly evaluate itself. The Board has adopted a policy that it feels keeps an open line of communication between itself and the staff. SLSD also has Board policies that outline the roles and responsibilities of the Board, Superintendent, and Treasurer that are readily available; however, the Board does not have policies or procedures mandating an annual self-evaluation.

According to *Becoming a Better Board Member* (National School Boards Association, 2006), many school boards attempt to evaluate themselves by assessing public opinion. If there are few complaints from members of the community and staff, school boards believe they are performing their responsibilities effectively. However, the public can provide informal evaluation of a board, but it cannot provide the kind of formal evaluation a school board really needs. Very few community members understand the roles and responsibilities of a board or measure a board's performance accurately. Instead, board members should engage in regular self-evaluations to ensure that they continue to exercise the most effective leadership possible. While there is no one "right" method of board evaluation, *Becoming a Better Board Member* provides standards that school board veterans see as essential evaluation elements and outcomes. These standards are as follows:

- An evaluation should be constructive and assess both the strengths and weaknesses of the board;

- Board members should develop the standards against which they will evaluate themselves;
- Evaluation should be based on goals that the board sets for itself, not on goals it sets for the entire school system. When developing an evaluation instrument, the board should recognize the difference between board goals and district goals;
- The evaluation process should include board establishment of goals, and strategies for improving board performance;
- The board should not limit itself to those items that appear on the evaluation form;
- Formal evaluations should occur at least once a year and at a scheduled time and place;
- A composite picture of board strengths and weaknesses is best. Each board member should complete an evaluation form independently, then compare and discuss results as a whole; and
- The board should be evaluated as a whole, not as individuals.

SLSD's Board operations are effectively meeting the needs of the District, and it appears that effective communication is occurring internally and with District administrators. However, a Board self-evaluation would help it better define its role in strategic planning and District goal setting. It would also alert the Board to performance issues and provide greater transparency of Board operations for the community.

R3.8 SLSD should evaluate the costs and benefits of bringing special education services in-house or sharing services with another district, compared with continuing its contract with the Greene County Educational Service Center (ESC).

SLSD contracts with the Greene County ESC for curriculum and special education services. The special education services make up the majority of costs in its contract, and include therapy, preschool, psychological services, SBH/mental health services, intensive needs/autism services, and special education supervision. 77.9 percent of the "miscellaneous costs" category in the General Fund are for special needs related support services provided by the Greene County ESC. This contributes to SLSD's greater cost per student in the miscellaneous expenditure category when compared with the peer average, as shown in **Table 2-2** (see **finance and strategic management**).

The Superintendent remarked that the District has noticed the high cost associated with the ESC and has been making decisions to reduce expenditures, one of which was replacing the ESC gifted coordinator with an in-house gifted coordinator. Although this was a difficult decision, the Superintendent feels that it reduced expenditures and increased the level of service for SLSD's gifted students.

Practical Ideas for Cutting Costs and Ways to Generate Alternative Revenue Sources (Adsit, 2005) recognizes that the quality of student education depends on the

effectiveness of teaching and learning. Reductions in funds could undermine the quality of instruction unless districts take the time to critically examine the issues at stake and establish priorities for decision making. The key is to find the best ways available to improve the effectiveness of curriculum and instruction for the least amount of dollars. Individualized instruction is essential to disabled students and districts need to develop approaches for handling reductions in funds and staff while continuing to meet the needs of the special education population.

State regulations and federal law drive many special education costs. However, opportunities exist to reduce these costs. The Joint Annual Conference of the Illinois Association of School Boards, Illinois Association of School Administrators, and Illinois Association of School Business Officials, in its *Special Report of the 2003 Joint Annual Conference* (2004), discusses methods of controlling special education costs. Examples of methods districts could use to increase efficiency and reduce special education costs included:

- Monitoring student progress frequently;
- Using interventions in the regular education classroom for at-risk students;
- Increasing non-special education options such as peer mentoring, counseling, and teaching of study skills;
- Providing the least restrictive environment possible;
- Increasing curricular flexibility;
- Hiring flexible teachers;
- Complying with state and federal regulations;
- Looking for prevention interventions; and
- Providing high quality early education programs.

SLSD should review the level to which it has used these methods and continue to explore additions to these and other strategies to ensure its special education services are cost effective and provide appropriate educational services to its special education students. Along with an examination of these methods, districts should continually evaluate the use of external resources, including county ESCs and other neighboring school districts, to ensure the optimal allocation of resources. The ODE Office of Exceptional Children provides leadership, assistance, and oversight to school districts that provide instruction for students with disabilities. Internal training for employees responsible for the development of student individualized education programs (IEPs) can improve the efficiency of services provided.

Ongoing identification of the significant services that drive special education expenditures will provide the District with a better understanding of where to focus on potential cost reductions. Once these significant areas are identified, the District should evaluate alternatives for providing the services and ensure that the services are rendered

in the most cost effective manner. Providing additional training on IEP development, service models, and special education funding to those employees directly involved in providing services to special needs students will help with this process.

SLSD's high special needs expenditures may be a result of the District's failure to annually analyze the costs and benefits of using the ESC versus providing special needs services in-house. If the District could reduce the miscellaneous cost category to the peer per-student level, it could potentially save \$700,000 annually in this category. Although there would be additional personnel costs that might offset these savings, the net savings would be an important cost reduction and beneficial to the financial condition of the District.

Financial Implications Summary

The following table presents a summary of the estimated annual cost savings identified in recommendations presented in this section of the report. Only recommendations with quantifiable financial implications are listed.

Summary of Financial Implications for Human Resources

Recommendation	Estimated Annual Cost Savings
R3.2 Reduction of 1.0 FTE office/clerical staff	\$39,400
R3.3 Increase employee share of health care premium costs ¹	\$108,000
R3.4 Discontinue payment of employees share of retirement contribution ²	\$102,000
Total	\$249,400

Source: AOS recommendations

¹ This recommendation is subject to collective bargaining.

² This recommendation is subject to negotiation and SLSD may not be able to implement it fully until all current administrator contracts have expired.

This page intentionally left blank.

Facilities

Background

This section focuses on maintenance and operations (M&O) of facilities in the Sugar Creek Local School District (SLSD or the District), including assessments of staffing levels, planning efforts, expenditures, policies, and operating procedures. The District's operations were evaluated against leading practices, peer districts,¹ and operational standards derived from the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), the International Sanitary Supply Association (ISSA), the United States Department of Energy (DOE), the Government Finance Officers Association (GFOA), and other school districts.

SLSD has seven buildings, including four in use as schools, an administrative building, an auxiliary building used primarily for preschool classes, and a transportation garage. Between 2004 and 2007, the District underwent a substantial construction project for all of its schools. Renovations and additions were completed at Stephen Bell Elementary (SB), Bell Creek Intermediate (BCI), and Bellbrook High School. Bellbrook Middle School was constructed in 2006. The administrative buildings are two former elementary schools currently being used for District purposes and for rental to various groups within the community. One building is the former Bell Creek Elementary School, now referred to as the Sugar Creek Education Center (SEC). The other building, Sugar Creek Elementary (SE) is still commonly referred to as an elementary because until recently, it continued to house some elementary classes. Now both the SEC and SE house a combination of District administrative offices and rental occupants (see **R4.2** for a recommendation concerning the administrative and auxiliary buildings). In 2003, the District also added a transportation garage, a pole barn built through a 10-year lease-purchase contract with funding from a permanent improvement levy.

In addition to the buildings, the District has also invested in additional acreage adjacent to its buildings. These purchases represent sizable plots, totaling 100 acres, including approximately 72 acres at the middle school (see **issues for further study** in the **executive summary**).

Enrollment & Capacity

Enrollment projections were developed in 2001, prior to the construction project, but have not been updated. Projections indicated a continued increase in enrollment; however, during later phases of building construction, 2006 through 2007, the District experienced declining enrollment. Auditors developed updated enrollment projections as a component of this audit. These projections indicate a slight declining trend in enrollment of about 12 students per year.

¹ See the **executive summary** for a list of the peer districts.

SLSD’s capacity and utilization rates are presented in **Table 4-1**. Auditors used a standard methodology for calculating school building capacity, derived from DeJong and Associates, that is often employed by educational planners.²

Table 4-1: Capacity and Utilization Rates (FY 2008-09)

Building	Functional Capacity	Enrollment	Building Utilization Rate
Stephen Bell Elementary	893.0	546	61.1%
Bell Creek Intermediate	702.0	569	81.1%
Bellbrook Middle School	844.1	647	76.7%
Bellbrook High School ¹	985.2	884	89.7%
Building Total	3,424.2	2,646	77.3%

Source: SLSD floor plans, building tours, and interviews; October 2008 enrollment count

¹ High school enrollment is reduced by 30 students attending vocational programs outside the District.

As noted in **Table 4-1**, the District has an overall functional student utilization rate of 77.3 percent, which is lower than the 85 percent utilization rate considered optimal by facility managers. The primary reason for this lower rate is that the District’s construction projects were designed to accommodate future growth. In FY 2008-09, only the high school was at optimal utilization, slightly exceeding it with 89.7 percent utilization. Stephen Bell Elementary was substantially below the benchmark with 61.1 percent. Most of the buildings at SLSD are below optimal utilization, indicating that the District has excess capacity that is not currently needed. Underutilized buildings can result in wasteful spending for utilities, and maintenance for areas receiving limited use. However, the District has only four buildings and, because of the large student population, is not able to consider consolidation into the remaining three school buildings at this time.

With the passage of House Bill 1, functional capacities in the elementary building will change based on the implementation of reduced K-3 student to teacher ratios and all day kindergarten. For example, the implementation of all day kindergarten at Stephen Bell Elementary will reduce the functional capacity in **Table 4-1** from 893 to 718.

² The capacity for elementary school buildings is calculated by multiplying the number of regular classrooms by 25 students, the number of kindergarten and preschool rooms by 25 students for all-day programs (by 50 for half-day programs), and the number of special education classrooms by 10 students. The capacities for each (elementary, kindergarten/preschool, and special education) are then totaled to arrive at the capacity for the building. Classrooms used for gym, music, art, library, and computer labs are set asides, and are excluded from the number of rooms used in the calculation. The capacity for middle schools and high schools is calculated by multiplying the number of regular classrooms by 25 students, and special education classrooms by 10 students, and then multiplying the rest by an 85 percent utilization factor. The 85 percent utilization benchmark is used to determine if the buildings are over or under utilized. The utilization rate is then calculated by dividing enrollment by the building capacity.

Staffing

The SLSD Maintenance and Operations (M&O) Department is responsible for the upkeep of the District's facilities and grounds. **Table 4-2** presents the FY 2008-09 staffing levels of the M&O Department.

Table 4-2: Maintenance and Operations Staffing

Classification	Number of Positions	Number of FTEs
Maintenance Supervisor	1	0.1
Maintenance Technicians ¹	2	2.9
Secretary	1	0.1
Custodians	19	18.2
Total	23	21.3

Source: SLSD EMIS data

Note: Groundskeeping functions are performed primarily by maintenance technicians.

¹ Maintenance technicians include 0.9 FTE for technical work performed by Maintenance Supervisor.

As shown in **Table 4-2**, SLSD has one Maintenance Supervisor spending approximately 10 percent of his time (or 0.1 FTE) on administrative duties such as payroll and purchase orders, and the remaining time (0.9 FTE) on responding to technical issues. A secretary at Sugar Creek Education Center spends approximately 5 hours out of a 35 hour work week (0.1 FTE) to provide administrative support by processing all maintenance purchase orders. The District has 18 full-time custodians and one bus driver who works for a few hours (0.2 FTE) as a custodian at the high school during lunch periods. The maintenance technicians report to the Supervisor, who reports directly to the Superintendent. The custodians report to building principals during the year and to the Maintenance Supervisor during the summer. In recent years, several M&O Department positions have been reduced through attrition. Specifically, at the beginning of FY 2008-09, one maintenance technician and one custodial employee position were eliminated.

Key Statistics

Table 4-3 shows a comparison of key statistics based on the District's FY 2007-08 data and national maintenance workload standards.

Table 4-3: Key Statistics and Workload

Key Statistics	
Number of Buildings ¹	7
Square Feet Maintained ²	576,353
Square Feet Cleaned ³	528,702
Workload Comparison	
Maintenance Standard - AS&U Cost Survey National Median ⁴	95,000
SLSD Maintenance Workload	198,742
Custodial Standard - NCEC Planning Guide ⁵	29,500
SLSD Custodial Workload	29,050
• Bellbrook High School	29,565
• Bellbrook Middle School	26,387
• Bell Creek Intermediate	24,031
• Stephen Bell Elementary	23,030
• Sugarcreek Education Center	51,367
• Sugarcreek Elementary (Administrative Complex)	57,841
• Transportation Garage	8,800

Source: SLSD, NCEC, and AS&U Magazine

Note: Totals may vary due to rounding.

¹Includes 4 schools, 2 administrative buildings, and a transportation garage.

²Square feet maintained includes all major buildings and auxiliary facilities maintained by the District.

³Square feet of areas not routinely cleaned by custodial staff, such as boiler rooms, were identified and removed from analysis.

⁴The AS&U study is based on a national survey which is released in April each year.

⁵According to NCEC, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.

Table 4-3 shows that SLSD’s maintenance staff has a high workload and significantly exceeds the national median. This level of productivity is possible because of the newer buildings and the level of experience of the maintenance staff. However, the District also operates with an overall custodial productivity level of approximately 29,050 square feet per FTE, which is 1.5 percent less than the benchmark of 29,500 square feet per FTE. In order to increase the level of productivity to a level in line with national standards, SLSD would need to reduce custodial staffing by 0.3 FTE positions. However, the school buildings comprise high-traffic areas requiring more custodial effort. Based on the square footage cleaned in the school buildings (433,141) and the custodial FTEs currently assigned to these buildings (16.3 FTE), the square footage cleaned per custodian is 26,573. This would suggest a potential overstaffing of 1.5 FTE positions.

The District eliminated 1.2 FTE custodial positions in the May 18, 2009 Board approved reductions.

Financial Data

Table 4-4 summarizes expenditures reported by the District to maintain and operate its facilities for FY 2005-06 through FY 2007-08.

Table 4-4: SLSD M&O Expenditures, Three-Year History

Cost Category	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change
Salaries and Wages	\$648,521	\$774,292	19.4%	\$862,370	11.4%
Benefits	\$261,065	\$282,335	8.1%	\$291,405	3.2%
Purchased Services	\$1,090,414	\$1,275,990	17.0%	\$1,386,868	8.7%
Supplies and Materials	\$30,203	\$49,087	62.5%	\$63,240	28.8%
Capital Outlay	\$78,085	\$55,455	(29.0%)	\$52,062	(6.1%)
Total	\$2,108,288	\$2,437,160	15.6%	\$2,655,945	9.0%

Source: SLSD bud sum reports for FY 2005-06, FY 2006-07, and FY 2007-08

Note: Totals may vary due to rounding.

As shown in **Table 4-4**, total M&O expenditures increased by 15.6 percent in FY 2006-07 and by 9.0 percent in FY 2007-08. The following is a brief explanation of some of the variances from year to year:

- **Salaries and Wages:** Salaries increased by 19.4 percent in FY 2006-07 from the previous year, and by 11.4 percent in FY 2007-08. Although the District reduced staff, it had increases in overtime, leave usage, furniture and equipment moving during construction and renovation, and substitute compensation that contributed to additional expenditures (see **R4.7**).
- **Benefits:** Changes in this category are consistent with salary changes (for more information on District benefits, see **human resources**).
- **Purchased Services:** This category increased by 17.0 percent in FY 2006-07 from the previous year, and by 8.7 percent in FY 2007-08. The majority of this increase is due to the construction and renovation of three buildings during the past three years. Moreover, the addition of air conditioning to these buildings has increased energy costs.
- **Supplies and Materials:** While spending in this category consistently increased from previous years, the category represents less than 2.5 percent of total maintenance and operations expenditures in all three years.
- **Capital Outlay:** The total expenditures within this category are less than 2.0 percent of maintenance and operations expenditures, and therefore are not considered significant.

Table 4-5 compares SLSD’s expenditures per square foot of facilities with the AS&U national medians. Expenditure categories that exceed the AS&U national median may indicate operational inefficiencies and may represent opportunities for further cost reductions.

Table 4-5: FY 2007-08 M&O Expenditures per Square Foot

Cost Category	SLSD	Per Square Foot			
		SLSD Expenditures Per Square Foot	AS&U	Above/ Below AS&U	Percent Difference
Salaries & Benefits	\$1,153,775	\$2.00	\$2.05	(\$0.05)	(2.3%)
Purchased Services ¹	\$415,525	\$0.72	\$0.61	\$0.11	18.2%
Energy ²	\$866,082	\$1.50	\$1.25	\$0.25	20.2%
Utilities ³	\$105,260	\$0.18	\$0.27	(\$0.09)	(32.4%)
Equipment & Supplies ⁴	\$115,302	\$0.20	\$0.38	(\$0.18)	(47.4%)
Total	\$2,655,945	\$4.61	\$4.56	\$0.05	1.1%

Source: District financial reports for Fiscal Year 2007-08, AS&U *37th Annual Cost Study 2008*

Note 1: The AS&U study is based on a national survey which is released in April each year.

Note 2: Totals may vary due to rounding.

¹ For comparison with AS&U, energy and utilities (including trash and telephone) were excluded from District's object code for purchased services (400). Includes comparisons with AS&U's "outside contract labor" and "other" categories."

² Energy represent District's object codes for electricity (451), gas (453), oil (455), or other (459) fuel costs

³ Utilities represent District's object codes for water and sewer (452), telephone (440), and trash disposal (422) costs. Includes comparison with AS&U's "utilities" and "trash collection/ disposal" categories.

⁴ Equipment and supplies represent District's object codes for supplies and materials (500) and capital outlay (600-700).

As shown in **Table 4-5**, SLSD’s overall spending per square foot of \$4.61 in FY 2007-08 was 1.1 percent higher than the AS&U national median of \$4.56. The District was notably lower in equipment and supplies (\$0.18 lower) and utilities (\$0.09 lower). While the District’s cost for purchased services exceeded the national median, further analysis showed the District was lower than peers in this category. The District was also higher in energy costs, but this is due to variations in regional costs.

Table 4-6 shows District utility expenditures compared with the peer averages.

Table 4-6: FY 2007-08 Utility Expenditures - All Funds

Cost Area	SLSD Total Expenditures	Per Square Foot			
		SLSD Expenditures Per Square Foot	Peer Average	Dollar Difference vs. Peers	Percent Difference vs. Peers
Electricity	\$554,069	\$0.96	\$1.11	(\$0.15)	(13.7%)
Water & Sewer	\$63,991	\$0.11	\$0.09	\$0.02	21.9%
Gas	\$310,865	\$0.54	\$0.50	\$0.04	7.5%
Coal	\$0	\$0.00	\$0.00	\$0.00	NA
Oil	\$1,148	\$0.00	\$0.00	\$0.00	NA
Other	\$0	\$0.00	\$0.00	(\$0.00)	NA
Energy & Utilities	\$930,073	\$1.61	\$1.71	(\$0.10)	(5.6%)

Source: SLSD and peer financial reports

When compared with the peers, SLSD is 5.6 percent lower in utility expenditures per square foot. Electricity, the largest category, is 13.7 percent below the peer district average. However, SLSD may have the potential to achieve additional savings in the use of natural gas (see **R4.6** for a detailed analysis of energy management).

Facilities Audit Objectives

The following is a list of the audit objectives used to evaluate the District's custodial, maintenance, and groundskeeping operations:

- What are the District's costs for facility maintenance and operations, and how do they compare with benchmarks?
- What are the M&O department's organizational structure and staffing levels, and how do they compare with leading practices?
- Does the M&O department have operational procedures, standards, and measures that meet leading practices?
- Are District energy management practices comparable to leading practices?
- Would enrollment trends suggest the District change how it plans to use its buildings?
- Does the District meet leading practices for planning and maintaining its facilities?
- Does the District have an effective and equitable system for managing maintenance needs?

Auditors noted that SLSD's maintenance staff productivity is above the national median.

Recommendations

Facilities Planning

R4.1 SLSD should develop a capital improvement plan that incorporates leading practice elements. As a component of the plan, the District should plan and implement periodic comprehensive building audits to identify important maintenance and safety issues, assess the overall condition of District facilities and equipment, and serve as references for capital improvement planning. Conducting formal audits will reduce long-term costs associated with unanticipated repairs. The District should use the results of the audits and its long-term vision of District facilities to develop a five-year capital improvement plan that identifies all planned repairs and upgrades and establishes a schedule of the preventative maintenance (PM) activities necessary to maintain these capital assets for as long as possible. The PM program should be based on informal activities already in place, ensuring that all necessary repairs, equipment replacement, and routine maintenance are completed as recommended by the manufacturer. By identifying the expected life cycles of assets, a capital improvement plan will help the District to anticipate future costs and set aside funds for large capital purchases.

SLSD does not have a formal capital improvement plan or PM plan, nor does it conduct regular audits of buildings. As part of its construction project, the District commissioned a formal audit of all District buildings in 2001 and a master plan in 2003, but has not formally updated these since the project was completed in 2007. In FY 2008-09, the District contracted with two companies for PM services such as cleanings, alignments, calibrations, and filter changes on the HVAC systems in two of the buildings. All other PM activities, ranging from greasing air handlers to refilling oil, are performed by the maintenance staff based on informal schedules guided by their personal experience with the equipment. In FY 2009-10, however, the District will no longer be contracting for the HVAC PM services, and all services will be performed in house or on a per diem basis.

Creating a Successful Facilities Master Plan (DeJong, 2001) states that school districts should develop long-term facilities master plans that contain information on capital improvements, preventative maintenance, and building conditions. The plans should be developed based on foundations of sound data and community input. A district-wide facilities master plan is typically a 10-year plan that should be updated periodically to incorporate improvements that have been made, changes in demographics, or other educational directions.

Preventative Maintenance for Local Government Buildings (Minnesota Office of the Legislative Auditor, 2000) describes a capital improvement plan as a schedule of capital

improvement projects listed in priority order over a number of years (usually five or more). Capital improvement plans typically include remodeling and new construction, as well as major maintenance projects.

Planning Guide for Maintaining School Facilities (NCES, 2003) recommends that all districts have formal PM programs, focused on regularly scheduled equipment maintenance, to prevent sudden unexpected equipment failure. NCES notes that many school districts practice “breakdown maintenance,” whereby maintenance problems are fixed as they occur. This method often defers major repairs and allows damage to compound over time. A well-designed management system generally encompasses four categories of maintenance, including emergency (or response), routine, preventative, and predictive. Maintenance tasks should be scheduled through the work order system and are typically based on manufacturer-recommended service intervals.

Furthermore, NCES recommends that facility audits become routine parts of the facilities maintenance program. Facility audits assist a school district in establishing baselines for measuring the conditions and needs of equipment and facilities. Audits are comprehensive reviews that document the condition of the facilities, their service histories, and their maintenance needs in order to help planners, managers, and staff know the life cycles of buildings, grounds, and equipment. Once initiated, audits should be performed on a regular basis (e.g., annually), because conditions change constantly. Furthermore, by integrating the findings of annual audits over time, planners can uncover information on the impacts of various maintenance strategies and the demands placed on the infrastructure. This information can be used to increase the efficiency and cost-effectiveness of future maintenance efforts.

With relatively new buildings, the District has not considered facility planning a priority. However, regular building audits would help develop routines and baselines for recognizing repair issues. By integrating the findings of annual audits over time, planners could ascertain realized (versus expected) product life cycles, the impact of various maintenance strategies and efforts on product life cycles, and the future demands the aging process might place on the infrastructure of a school district. This information can be used to increase the efficiency and cost-effectiveness of facility maintenance efforts. By addressing maintenance issues at an early stage, SLSD can also reduce maintenance costs, breakdown repair costs, and ultimately, the staff time required for maintenance and repairs.

R4.2 SLSD should consider selling the former Sugarcreek Elementary building and consolidating administrative offices into other District facilities, including the Sugarcreek Education Center (SEC). Although Sugarcreek Elementary was retained by the District to allow for future capacity, projections now indicate relatively stable enrollment in future years. Due to its financial situation, the District should eliminate the expenditures required to retain this building and redirect these resources into instructional areas.

Since several community groups, including the Family Resource Center, rent or otherwise use space at Sugarcreek Elementary, the District may be able to pursue an agreement with a community organization or local government agency to purchase or lease the facility. The District should consider this agreement only if the other party assumes responsibility for all energy, utility, and maintenance expenditures for the facility.

SLSD has two former school buildings, Sugarcreek Elementary and Sugarcreek Education Center (SEC), which are being used by the District both for administrative functions and auxiliary purposes. At SEC, the majority of the building is used for District purposes, primarily for pre-school education rooms. The building also houses the maintenance office, in-school suspension, technology labs, and several meeting rooms. Rental groups at SEC include a church, a senior citizen group, and the local latchkey program. In addition, the County has an intensive-needs unit that uses two rooms.

At Sugarcreek Elementary, the District administrative offices for the Superintendent, Business Manager, Treasurer, Elementary Curriculum Director, Secondary Curriculum Director, EMIS Coordinator, and part-time Community Relations Coordinator are all located in the first floor section. The remainder of the facility is used for storage or for rentals. The most significant of these is the Family Resource Center, which uses several rooms for counseling services and as a food pantry. Various rental groups, including churches, non-profits, businesses, community groups, and school booster clubs, use the remainder of the space. Rates depend on the type of organization and its relationship to the school.

Table 4-7 presents the utility costs associated with the administrative building (Sugarcreek Elementary) and the SEC.

Table 4-7: Administrative Building Utility Costs – FY 2007-08

Building	Sugarcreek Elementary	Per Sq Ft	Sugarcreek Education Center (SEC)	Per Sq Ft	Total
Electricity	\$30,501	\$0.49	\$40,811	\$0.94	\$71,312
Gas ¹	\$25,296	\$0.40	\$22,123	\$0.51	\$47,419
Water	\$8,039	\$0.13	\$2,944	\$0.07	\$10,983
Total Expenditures	\$63,836	\$1.02	\$65,879	\$1.52	\$129,715
Facility Fees ²					(\$25,578)
Total					\$104,137

Source: FY 2007-08 District financial reports

Note: Totals may vary due to rounding.

¹ Natural gas is billed jointly for SEC and Bell Creek Intermediate. The SEC portion is calculated as a percentage of total square footage for both buildings.

² Fees for rentals are deposited in a single revenue fund which does not identify buildings. This amount included fees received for other facilities, but those are considered minimal.

As shown in **Table 4-7**, the fees assessed for facility use rentals do not cover the costs of energy and utilities associated with these two buildings. The buildings each cost over \$60,000 for typical utility use, and the fees collected amount to 19.7 percent of these combined expenditures. While the Superintendent reports informally reviewing District operating costs at the administrative buildings, fees are established based on competitive rates with other districts rather than actual operating costs. Fees are assessed based on a rental form and a Board policy criteria sheet. The Superintendent arranges rental contracts for these two buildings. The District has followed an informal policy of containing energy costs at the two administrative buildings to limit expenditures. Portions of the building are zoned off where possible, and temperature is reduced for these areas.

The District has considered downsizing the two buildings. **Table 4-7** indicates that SEC would be a strong candidate for this, as it has a higher per square foot cost than Sugarcreek Elementary. However, SEC is located on the campus with the high school and Bell Creek Intermediate School and is handicapped-accessible. In contrast, Sugarcreek Elementary has more property, a larger building, and significantly more parking options, but is not configured to support the programs associated with the special education pre-school and County intensive-needs units.

The *Guide for the Adaptive Use of Surplus Schools* (Giljahn and Matheny, 1981) suggests that operating half-empty buildings is wasteful, with many expenses continuing as though the buildings are fully occupied. The following advantages result from selling an under-used building:

- Upkeep costs to the school system are eliminated;
- The property is returned to the community tax rolls;

- If reuse of the building is specified at the sale, preservation of the building is ensured;
- New use of the building can provide a psychological boost to the community; and
- The school system receives a financial return on space that is no longer needed.

The retention of SEC and Sugarcreek Elementary were part of an informal plan to prepare for future growth. Costs incurred for retaining the property were estimated to be lower than future property costs due to escalating property value. The fees from the external groups using the facilities, however, have not equaled the District's expenditures, which included at least \$104,000 in FY 2007-08 for unsubsidized energy and utility costs. In addition, the District incurs additional expenses due to repairs and general property upkeep. While the District uses these buildings for District purposes other than rentals, projected enrollment has become relatively stable, so the additional capacity in the school buildings could accommodate some of these educational and administrative functions.

Due to SLSD's financial situation, the District should consider selling any unnecessary assets in order to reduce operating costs. Since the rental areas can be eliminated and the other areas consolidated, the District can close one of the buildings. Since SEC is located on a campus adjacent to both the high school and intermediate school, this building would be logistically difficult to sell. Further, due to accessibility issues, the building is more suitable for the special needs of the pre-school educational program. Thus, the District has a higher likelihood of being able to sell the Sugarcreek Elementary building.

With the passage of House Bill 1 (HB1), enacted into Ohio law on July 17, 2009, the District should consider the potential impact on facilities needs and determine if there are unused properties, which if sold, would provide a one-time revenue source and eliminate the cost of maintaining and protecting these properties.

Financial Implication: By closing the former Sugarcreek Elementary, the District would reduce its overall utility costs by approximately \$68,000 annually. Additionally, by selling the building, the District could potentially receive one-time revenue of up to \$2.2 million based on the Greene County Auditor's estimate of the property value.

- R4.3 SLSD should develop and implement formal performance standards and measures to establish staff expectations, evaluate individual performance, and assess the overall effectiveness of maintenance and operations activities. By developing formal performance measures, the District can consistently evaluate the efficiency and effectiveness of operations. Increased efforts to measure and track performance can improve decision making and resource allocation, and may help reduce operating costs. Additionally, the District should evaluate the performance of all M&O**

Department staff annually, using the established performance measures. The performance measures should be based upon and consistent with the procedures identified through an operating handbook or written guidelines (see R4.4) to ensure that all staff are properly informed of expectations related to their positions.

As a practice, SLSD does not use performance measures to evaluate the efficiency and effectiveness of maintenance and custodial operations consistently. While building needs are considered, the District has mostly used informal means for staffing decisions and operational efficiency. The District conducts annual performance evaluations, but these are based mostly on informal analyses from observations and reviews. Staff workload is determined by observing the facility configuration and reviewing expected custodial and maintenance activities. This is not documented, but is instead performed informally for the purpose of determining staffing needs.

Best Practices in Public Budgeting (GFOA, 2000) recommends that organizations develop and use performance measures for functions, programs, and/or activities. Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions.

According to *A Game Plan for Productivity: Tactics for Holding Down Labor Costs and Helping the Bottom Line* (FacilitiesNet, 1999), a school district can experience savings as maintenance and operations managers measure the productivity of the custodial function and increase the productivity of the people that perform these activities. Facilities managers who apply recommended practices can increase the productivity of their custodial operations by 10 to 25 percent and decrease their overall labor budgets. Productivity measures should include the following:

- Square footage cleaned per hour or per shift;
- Costs per square foot to clean a facility;
- Quality of service;
- Definitions for productivity and performance; and
- Customer input.

ISSA-recommended cleaning times can also be used by districts to evaluate cleaning processes. Twin Valley Local School District (Preble County) has applied these standards to its custodial procedures and achieved high levels of efficiency while maintaining a sanitary environment. Similarly, Oregon CSD (Lucas County) has instituted ISSA workload measures for its staff, and has achieved a very high productivity level without sacrificing building conditions (approximately 39,000 square feet cleaned per custodian

in FY 2008-09). Oregon CSD uses written procedures and handbooks to instruct staff in the best methods for applying cleaning and maintenance procedures.

Without a formal set of performance standards for measuring the M&O Department, the District limits its ability to objectively evaluate staff and organizational performance. Evaluating the operation through objective criteria can establish a baseline performance measure, which can then be used for comparing whether changes affect operational performance. Implementation of performance standards and measures, coupled with formal job expectations (see **R4.4**), could raise the level of service provided by the M&O Department with little additional cost to the District.

Staffing and Operations

R4.4 SLSD should develop a formal handbook for the M&O Department. The handbook should address topics such as mission statement, personnel policies, purchasing regulations, accountability measures, safety procedures, repair standards, vehicle use guidelines, and security standards. It should contain specific instructions on the performance of routine and non-routine tasks, detail time standards for accomplishing tasks, and provide directions for operating any equipment to be used in completing the tasks. Once developed, the handbook should be updated when procedures change and should be used as a training tool.

SLSD does not have M&O Department procedures manuals or handbooks that describe its cleaning, maintenance, and groundskeeping functions. The District uses job descriptions and custodial checklists to guide staff responsibilities and functions. Job descriptions provide information on job responsibilities. Some buildings, such as the high school, use checklists for custodians; however, it is not required. Some custodians have written out lists of daily custodial duties and have them at their workstations to be available to anyone filling in for those positions. While these types of activities provide guidance to the duties of M&O staff, the lists do not include specific procedures for performing custodial or maintenance tasks or guidance on the use of equipment.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), every maintenance and operations department should have a policies and procedures manual that governs day-to-day operations. The manual should be readily accessible (ideally through the District's intranet or internet sites). NCES recommends that management formally document:

- The mission statement;
- Personnel policies;
- Purchasing regulations;
- Accountability measures;

- Asbestos procedures;
- Repair standards;
- Vehicle use guidelines;
- Security standards; and
- Work order procedures.

ISSA has developed a handbook designed to help train and guide custodians. The handbook details correct cleaning methods, as well as the proper use of custodial equipment, and offers guidelines and tips on 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;
- Scrubbing/stripping;
- Spray buffing/ high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and
- Window cleaning.

The custodial and maintenance procedures manuals used by Lancaster City School District and Oregon City School District are considered industry standards. Both manuals provide details on areas of responsibility, including equipment use and general expectations. In addition, Oregon City School District has developed extensive scheduling, workload, and staffing expectations based on ISSA guidelines (see **R4.3**).

Without a formal policies and procedures handbook to guide maintenance and operations, procedures may not be consistently followed and District standards may not be met. Developing and incorporating policies and procedures manuals and standards for all M&O Department staff will help ensure more efficient and effective cleaning. An M&O handbook will help effectively communicate management expectations as to the quality of work and performance standards. Written policies and procedures would also help ensure that M&O issues are managed in a consistent manner.

R4.5 SLSD should implement its computerized maintenance management system (CMMS)³ to help improve management of its facility maintenance program. By tracking maintenance activities through its CMMS, the District can review productivity statistics and track job completion. In addition, the system should include written guidelines that specify how to prioritize and schedule emergency, health and safety, preventative maintenance, and unscheduled requests. A clear written standard will ensure District staff are aware of how requests are prioritized, and that all emergency issues are responded to appropriately.

SLSD is designing a new computerized work order system to track maintenance requests. The system is being developed in-house with the Director of Personnel working closely with the Maintenance Supervisor to address M&O Department needs. The system will track orders, with the requests going through the respective building principals for approval. The template is set up for the work order system, but it is not yet in final form.

Currently, work order requests are submitted on forms or through phone calls, and emergency work orders are prioritized by staff based on common sense. Once a work order is completed, the maintenance worker signs it and it is filed. Although records are retained for a few years, the District does not review the data from completed work orders for responsiveness or other performance statistics.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends the development and implementation of a work order system. According to NCES, work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the costs of parts and labor. At a minimum, work order systems should account for the date a request was received, the date the request was approved, a job tracking number, and the job status. NCES states that a good policy is for each building to appoint a single person to coordinate internal oversight over that site's work requests.

NCES also suggests that a good work order system should allow the maintenance department to establish a job's priority status, including identifying whether the task is routine, preventative, or emergency in nature. After assigning the status, the work order should be updated in the record so that the person who initiated it can view the status.

According to the New Mexico Public School Facilities Authority, one method for prioritizing work orders is to use the following criteria:

³ A CMMS automatically schedules and tracks preventative maintenance activities, prioritizes multiple work requests, and helps anticipate needed facility maintenance, equipment repairs, and replacements. A CMMS also tracks and monitors the amount of supplies and materials used on a project, the cost of labor (including staffing levels and overtime use), and the productivity and performance of assigned personnel.

- **Emergency:** eminent life and safety threat, or operational disruption that could cause the closure of the schools;
- **School/Health/Safety/ADA:** identified problem that could result in injury if not corrected in a timely manner;
- **Preventative Maintenance:** scheduled inspection or routine maintenance tasks that, if not completed, could result in premature failure of a facility system or equipment item;
- **Unscheduled Repairs:** action required in repairing a facility system, equipment item, or building component that is not functioning properly or was damaged; and
- **Support Services:** upon request, the maintenance department can assist schools with special events and programs. As much advance notice as possible should be provided so that this support will not conflict with other work requirements.

Problems related to repeat maintenance requests and unapproved repairs have developed at SLSD because of the informal nature of the current system. A documented and tracked work order system would provide the District with the opportunity to reduce duplicate requests and confirm approvals. Using a computer-based system would assist the District in reviewing the efficiency and effectiveness of maintenance operations. The system would help increase accountability by standardizing the process and providing tools to track work progress and completion.

Formally prioritizing work orders can also help districts manage their work loads in a more efficient manner and help establish expectations for all staff. Creating a prioritization policy ensures that the Supervisor more readily addresses emergency issues and improves the District's response to important emergency situations. While a CMMS could cost approximately \$1,000 for an annual subscription, the District is currently in the process of developing its own in-house version, which should result in little additional cost to the District.

Energy Management

- R4.6 SLSD should implement a formal District-wide energy conservation program which includes training and awareness programs and requires regular reviews of utility costs and usage. The energy conservation program should be consistent with and part of the District's long-range planning efforts. Within this program, the District should standardize and formalize its energy conservation measures, energy purchasing practices, and energy monitoring procedures, and should articulate its plan to educate employees and students in conservation-oriented behaviors. By developing and implementing a program that contains these elements, the District can reduce its energy costs and generate additional long-term energy cost savings.**

SLSD does not have a Board policy or formal program related to energy conservation. The District has energy cost information, but does not monitor these costs throughout the year. Although the District is concerned about heating and cooling costs, it has sought to control these costs through technology, and has not developed any educational campaigns for its staff. SLSD uses thermostats designed to provide remote control over heating and air conditioning use. The system restricts the ability of facility users at the school buildings to adjust the thermostats more than a few degrees, preventing excessive energy usage in occupied rooms and reducing unnecessary heating and cooling of under-used sections of the buildings. While the two older buildings (Sugarcreek Elementary and Sugarcreek Education Center) are not fitted with the utility monitors, the District manages energy costs at the buildings by locking unused rooms and checking the temperatures in other rooms. The District also emphasized energy efficiency in recently constructed buildings, effectively including ambient lighting in the design of interior spaces of buildings. However, because the Treasurer does not monitor energy expenditures during the year, the District has not been able to review usage data to determine whether the temperature controls have resulted in savings.

During the course of the audit, the District commissioned an energy study designed to review energy data at the buildings. The study, conducted by an energy services company, includes charts of energy consumption and costs at each building. General types of activities are described that can be performed by a District to result in energy savings. Since no benchmark is provided in the energy study calculations, the study presents only costs in relation to other buildings. The District reports that during a discussion of the report, the high school and middle school were identified as above the norm in electricity costs. The Superintendent indicated that he has discussed with building principals the results of the study and ways to lower these costs through energy conservation measures, such as shutting off lights in unused rooms and not propping doors open.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), the cost of energy is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. The following guidelines will help a school district to accomplish more efficient energy management:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the district's energy management program, and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Conduct energy audits in all buildings to identify energy-inefficient units;
- Institute performance contracting when replacing older, energy-inefficient equipment;
- Reward schools that decrease their energy use;

- Install energy-efficient equipment, including power factor correction units, electronic ballasts, high-efficiency lamps, right setbacks, and variable-speed drives for large motors and pumps; and
- Install motion detectors that turn lights on when a room is occupied.

According to *School Operations and Maintenance: Best Practices for Controlling Energy Costs* (U.S. Department of Energy, 2004), a successful maintenance and operations program will typically achieve savings of between \$0.06 and \$0.30 per square foot in annual utility costs, depending on the program type, aggressiveness of changes, the state of current maintenance and operations practices, and the conditions of facilities.

Mansfield City School District has implemented an aggressive energy conservation program and developed policies which were distributed to all employees. All employees were required to participate in the program. Administrators and support personnel (particularly custodians) were invested in the process and enlisted to help ensure its success. The policy not only contained recommended practices outlined in NCEES and U.S. Department of Energy publications, but included several other leading practices as well. The steps outlined in the policy help save energy dollars while eliminating energy waste in the district's buildings. The policy also educates students and staff on ways to contribute to energy efficiency in the District. Auditors provided SLSD with a copy of this policy during the course of the audit.

By developing a formal energy conservation policy, providing training to students and staff, and instituting mechanisms to monitor energy usage, the District would be better able to control and potentially reduce utility costs. Making energy conservation a requirement of all staff and empowering administrators and building custodians to exercise aggressive energy management practices, including "impounding" prohibited items, would help the District reduce its energy consumption costs and redirect these funds to classroom instruction.

Financial Implication: An aggressive energy conservation policy, backed up by a conservation education program, should allow the District to achieve an estimated 10 percent savings (based on current conditions and efforts to date). Savings are calculated using natural gas and electricity costs, and would be approximately \$86,493 based on FY 2007-08 expenditures.

R4.7 The District should limit Maintenance and Operations Department overtime to 2.0 percent of regular salaries. Restricting the use of overtime will reduce a source of uncontrolled expenditures in SLSD's facility operations.

During the course of the audit, the District restricted overtime unless approved in advance of its use.

SLSD has recorded high overtime as a percentage of regular salaries for its M&O functions in the past several years. First, the District noted that overtime in recent years has been caused by additional time for moving and for extra cleaning in connection with the building projects. Second, overtime occurs seasonally due to inclement weather, as the District performs its own snow removal. Third, the District hosts numerous special events where the District rents out facilities and is reimbursed for custodial overtime. Although the cost of this overtime is charged to the appropriate facility users, the District does not separately identify these additional services. Thus, overtime is inflated by these special events. Lastly, the District noted that it had previously been paying overtime to the Maintenance Supervisor despite the fact that his position is an administrative position not eligible for overtime.

SLSD M&O Department regular salaries and overtime are identified in **Table 4-8**.

Table 4-8: M&O Department Salaries and Overtime

	FY 2006-07	FY 2007-08	Change in FY 2007-08
Custodial Regular Salaries	\$480,284.17	\$564,402.68	17.5%
Custodial Overtime	\$19,919.23	\$10,037.46	(49.6%)
% of Custodial Salaries	4.1%	1.8%	
Maintenance Regular Salaries	\$124,747.13	\$132,134.91	5.9%
Maintenance Overtime	\$11,074.28	\$17,958.75	62.2%
% of Maintenance Salaries	8.9%	13.6%	
M&O Regular Salaries	\$605,031.30	\$696,537.59	15.1%
M&O Overtime	\$30,993.51	\$27,996.21	(9.7%)
% of M&O Salaries	5.1%	4.0%	

Source: SLSD financial reports FY 2006-07, FY 2007-08

Best Practices: Maximizing Maintenance (FacilitiesNet, 2003) recommends that maintenance overtime be limited to 2 percent of salaries. Overtime can be a source of unanticipated expenditures for a District and can be subject to significant fluctuations. As indicated in **Table 4-8**, total M&O Department overtime exceeded the recommended benchmark of 2.0 percent of regular salaries in both FY 2006-07 and FY 2007-08. Custodial overtime, however, was significantly reduced in FY 2007-08, to 1.8 percent. In contrast, overtime paid to maintenance technicians increased in FY 2007-08.

By keeping overtime low, the District can better control expenditures. Because of the recent building construction projects, overtime may have fluctuated to accommodate these one-time needs. Although the District has recently curtailed overtime, there is no indication that this policy will continue if the budget problems ease. The District has not

established a system for restricting the scheduling and use of overtime by maintenance and custodial staff. Unrestricted overtime use can cause significant fluctuations in expenditure levels and unanticipated costs to the District's General Fund M&O budget.

Financial Implication: Limiting overtime to 2.0 percent would have amounted to a savings of \$14,100 in FY 2007-08.

Summary of Financial Implications

The following table presents a summary of the estimated annual cost savings identified in recommendations presented in this section of the report. Only recommendations with quantifiable financial implications are listed.

Summary of Financial Implications for Facilities

Recommendation	Estimated Annual Cost Savings
R4.2 Close Sugar Creek Elementary building ¹	\$68,000
R4.6 Implement an energy conservation program	\$86,500
R4.7 Reduce overtime to 2 percent	\$14,100
Total	\$168,600

Source: AOS recommendations

¹ If the building is sold, SLSD could receive one-time revenue of up to \$2,000,000, based on the County Auditor's appraised value. However, this is highly contingent on the local real estate market conditions at the time of sale.

This page intentionally left blank.

Transportation

Background

The transportation section focuses on Sugarcreek Local School District's (SLSD or the District) transportation operations. Its transportation operations were evaluated against leading practices, operational standards, and selected peer school districts.¹ Comparisons were made for the purposes of developing recommendations to improve business practices and, where appropriate, reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources, including the Ohio Department of Education (ODE), the Ohio Revised Code (ORC), the Ohio Association of School Business Officials (OASBO), and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

ORC § 3327.01 requires that, at a minimum, school districts provide transportation to and from school to all students in grades kindergarten through eight who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as is provided to their own students. In addition, school districts must provide transportation to disabled students who are unable to walk to school, regardless of the distance.

SLSD transports all students from kindergarten through twelfth grade, regardless of distance. A motor vehicle accident involving a high school student prompted a Board decision to limit student parking and encourage high school student transportation on District buses. In response to its deteriorating financial condition, the District considered service levels closer to State minimum standards during FY 2008-09, including the discontinuance of high school transportation. However, these changes were not implemented.

Organizational Structure and Responsibilities

The District provides educational services to an area of approximately 29 square miles, including the City of Bellbrook and Sugarcreek Township in Greene County, Ohio, as well as some areas located in Warren County, Ohio. The Transportation Coordinator oversees the Transportation Department and staff. In FY 2007-08, SLSD had 38 bus drivers, 10 substitutes, 1 mechanic, 2 part-time mechanic helpers, and 6 attendants. The District's bus attendants are assigned to special needs buses and one "inner city" (Bellbrook) bus. Transportation staffing levels for FY 2008-09 show a reduction of one bus driver, for a total of 37. The District also employed only 7 substitutes, due to the health-related absences of 3 bus drivers.

¹ See the **executive summary** for a list of the peer districts.

The District's routing process begins with parents requesting bus service for their children. The rider and address information is entered into SLSD's routing software system. The routes are formulated based on bus capacity, distance, bus stops, and time parameters. The District uses staggered bell schedules and a two-tier routing system for most of the routes, in conjunction with cluster stops where appropriate. Kindergarten students typically receive "door to door" service. When route times approach one hour, the Transportation Coordinator adjusts routes to shorten trip time. The average route time in FY 2008-09 for all student routes in the District was approximately 41 minutes. Public student route times averaged 34 minutes, with non-public and special needs routes running an average of 69 and 71 minutes, respectively. SLSD does not routinely require parents to update their requests for transportation service (see also **R5.3**).

School districts in Ohio are required to submit transportation forms (T-forms), which report ridership and cost data to ODE. Submission of this data to ODE is completed by the Treasurer and Transportation Coordinator, and approved online by the Treasurer and Superintendent. Incorrect procedures resulted in the District misreporting costs for its transportation service (see **R5.2**). In addition, concerns about the reliability of student rider counts are discussed in **R5.2**.

Operational Statistics

Table 5-1 shows key operating statistics for SLSD from FY 2006-07 through FY 2008-09, in comparison with the FY 2007-08 peer averages.

Table 5-1: SLSD and Peer Key Statistics

	SLSD FY 2006- 07	SLSD FY 2007- 08	Percent Increase (Decrease)	SLSD FY 2008- 09	Peer Average FY 2007- 08	FY 2007- 08 Percent Difference
Square Miles	29.4	29.4	0.0%	29.4	30.3	(3.1%)
EMIS Headcount Enrollment	2,817	2,770	(1.7%)	2,732	5,881.4	(52.9%)
Total Students Transported (All Types)	2,371	2,202	(7.1%)	1,977	4,417.1	(50.1%)
Yellow Bus Riders (Type I)						
Public	2,046	1,940	(5.2%)	1,736	3,807.5	(49.0%)
Non-Public	184	126	(31.5%)	116	490.2	(74.1%)
Special Needs	63	50	(20.6%)	50	84.5	(40.8%)
Total Yellow Bus Riders	2,293	2,116	(7.7%)	1,902	4,382.2	(51.7%)
Operating Ratios						
Enrollment per Sq. Mile	95.9	94.2	(1.7%)	92.9	207.6	(54.6%)
Daily Miles per Yellow Bus Rider	0.9	1.0	9.0%	1.0	0.9	5.2%
Riders Per Square Mile	78.0	72.0	(7.7%)	64.7	156.6	(54.0%)
Yellow Bus Riders per Active Bus	60.3	55.7	(7.7%)	51.4	73.6	(24.4%)
Routine Miles per Active Bus	9,815	9,872	0.6%	9,409	11,980.1	(17.6%)
Non-routine Miles % of Total Miles	7.7%	8.7%	13.4%	NA	0.1	31.4%
Non-routine Miles per Enrollment	11.0	12.9	17.4%	NA	8.5	51.9%
Buses (Type I)						
Active Buses	38	38	0.0%	37	60.4	(37.1%)
Spare Buses	7	7	0.0%	8	10.8	(35.2%)
Miles (Type I)						
Annual Routine Miles	372,960	375,120	0.6%	348,120	721,026.0	(48.0%)
Annual Non-routine Miles	31,020	35,795	15.4%	NA	47,969.1	(25.4%)
Total Miles	403,980	410,915	1.7%	NA	764,559.9	(46.3%)

Source: SLSD and peer T-reports and EMIS data as reported to ODE

As shown in **Table 5-1**, the District's operating ratios indicate a continued decline in ridership. Overall, ridership has decreased by 7.1 percent from FY 2006-07 to FY 2007-08. The average number of yellow bus riders per bus shows a decrease of 7.7 percent, to 55.7 students per active bus in FY 2007-08. These trends continued in FY 2008-09, with decreases in overall ridership of 10.2 percent, yellow bus riders per bus of 10.1 percent, and yellow bus riders per active bus of 7.7 percent. In FY 2008-09, SLSD transported only 51.4 yellow bus riders per bus. SLSD did not change the number of active buses used between FY 2006-07 and FY 2007-08, despite a decrease in ridership of 177 riders. In FY 2008-09, the District operated one less active bus. In FY 2007-08, SLSD transported 24.4 percent fewer riders per active bus than the peer average.

The District's square mileage is similar to the peer districts, although its number of riders per mile was 54.0 percent lower in FY 2007-08. In addition, the District's regular ridership per bus of 55.7 was 24.4. percent lower than the peer average of 73.6 students per bus. Also, the average daily miles traveled per rider is 1.0 mile, which is slightly higher than the peers (0.9 miles).

The efficiency of a district's transportation function is primarily measured by its bus utilization—the ability to achieve an optimal number of students per bus. Because of the importance of this statistic, ODE established an efficiency ratio for each district within the State, based on riders per bus in relation to population density. These ratios are compiled in its Pupil Transportation Efficiency Targets report. For FY 2008-09, ODE determined that SLSD's transportation function was inefficient, based on the District's efficiency ratio of 0.75 (see **R5.3**). This rating and the comparisons with the peers and national benchmarks indicate an opportunity for the District to increase efficiency in its operations (see **R5.3**).

Table 5-2 shows a comparison of SLSD's costs with the peer average costs during FY 2007-08.

Table 5-2: Transportation Cost Ratios

	SLSD FY 2007-08	Peer Average FY 2007-08	Difference vs. Peers
Salaries			
• Per Yellow Bus Rider	\$345.41	\$373.53	(7.5%)
• Per Active Bus	\$19,233.84	\$26,569.89	(27.6%)
• Per Routine Mile	\$1.95	\$2.23	(12.7%)
Benefits			
• Per Yellow Bus Rider	\$124.86	\$169.78	(26.5%)
• Per Active Bus	\$6,952.55	\$11,864.88	(41.4%)
• Per Routine Mile	\$0.70	\$1.00	(29.7%)
Maintenance & Repairs			
• Per Yellow Bus Rider	\$84.79	\$85.78	(1.2%)
• Per Active Bus	\$4,721.42	\$6,342.42	(25.6%)
• Per Routine Mile	\$0.48	\$0.53	(9.7%)
Fuel			
• Per Yellow Bus Rider	\$101.56	\$94.42	7.6%
• Per Active Bus	\$5,655.05	\$6,851.00	(17.5%)
• Per Routine Mile	\$0.57	\$0.57	0.2%
Bus Insurance			
• Per Yellow Bus Rider	\$6.61	\$9.90	(33.2%)
• Per Active Bus	\$368.26	\$691.72	(46.8%)
• Per Routine Mile	\$0.04	\$0.06	(35.4%)
All Other Costs			
• Per Yellow Bus Rider	\$33.46	\$15.64	114.0%
• Per Active Bus	\$1,863.26	\$1,175.20	58.5%
• Per Routine Mile	\$0.19	\$0.10	96.0%
Total Expenditures			
• Per Yellow Bus Rider	\$696.69	\$749.04	(7.0%)
• Per Active Bus	\$38,794.39	\$53,495.10	(27.5%)
• Per Routine Mile	\$3.93	\$4.49	(12.5%)

Source: SLSD and peer FY 2007-08 T-reports

As indicated by **Table 5-2**, SLSD's costs are lower overall and in several major categories when compared with the peers. On average, it cost the District 27.5 percent less per bus than the peer average. The largest operating expenditures for the District and the peers were salaries and benefits. SLSD's costs per bus were significantly lower than the peer averages in these categories, by 27.6 percent and 41.4 percent, respectively. Fuel costs per routine mile were comparable to the costs experienced by the peer districts. Other costs, however, were significantly higher than the peers. These costs consisted of bus lease purchase costs, security, training, and certification expenditures. Although these costs were higher than the peer average, the amount was relatively smaller compared with the other categories, and was attributed to variances in accounting, operational needs, and T-2 reporting procedures among the districts.

Although SLSD transported all students regardless of distance in FY 2007-08, the average transportation costs of the District are significantly lower than the peer averages. Given the strain on the District's finances and the information presented in **Tables 5-1**, changes in services that further improve efficiency will have a positive impact on the District's finances.

Transportation Audit Objectives

The following questions were used to evaluate the transportation operation at SLSD:

- How do the District’s transportation policies and procedures compare with leading practices and impact operations?
- How can the District improve the accuracy and reliability of its transportation data?
- How does the District’s “yellow bus” (Type I) transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- Is the District effectively and efficiently maintaining and managing its fleet?

SLSD’s overall cost ratios per rider, per active bus, and per routine mile were less than the peer averages by 7.0 percent, 27.5 percent, and 12.5 percent respectively. No further assessments of these operating ratios were warranted.

Recommendations

R5.1 SLSD should revise its transportation policy to reflect the transportation service actually provided by the District. Furthermore, the District should communicate its transportation service levels to parents and students using its web site.

The District's transportation policy is found in its Board policy manual and can be located on the District's web site. The policy describes service levels above the State minimum requirements, stating that the District transports students in grades kindergarten through eight who live one mile or more from their schools. However, the District has transported all students, regardless of grade level or distance, for over a decade. In addition, the District does not have actual service levels posted on its web site. As increased service levels can increase costs when buses and routes are implemented to accommodate a larger population, SLSD may have incurred additional costs of up to \$700,000 annually for its enhanced levels of service.

ORC § 3327.01 requires school districts to provide transportation in instances where resident school pupils in grades kindergarten through eight live more than two miles from the school to which they are assigned (including non-public or community schools). A district must also provide transportation to career-technical students and students within 30 minutes of direct travel time to and from non-public or community school. Ohio law permits districts to exceed minimum service levels and to deviate from levels stipulated in Board policy on account of hazards to students who may walk to school. However, transportation services exceeding State minimum requirements increase operational costs to the school district.

Communicating transportation policies and procedures is an important component of managing service levels and community expectations. Olentangy Local School District's transportation page on its web site was featured as the web site of the week in the April 1, 2009 edition of *School Bus Fleet eWeekly*. This web site illustrates leading practices in communicating transportation related information to district stakeholders. By communicating the transportation policies to its parents and students, Olentangy Local School District helps ensure a clear understanding of transportation policies and related procedures and requirement.

Because SLSD has created an expectation of a higher level of service for the community in exception to its written policy, it will need to clearly explain to parents and students any changes it makes to transportation services to address its deficit. Since its options are numerous and varied, clear and frequent communication will be essential to ensure disruptions to transportation service are minimized. Finally, clarifying to whom service is provided will help the Board and administration better understand their options in providing services and the associated costs and savings with each option.

R5.2 SLSD should implement appropriate internal control procedures for completing all T-forms to ensure accurate and complete reporting. The procedures should provide checks to ensure submitted reports reconcile with the Treasurer’s records. In order to ensure more accurate reporting, SLSD should do the following:

- **Ensure the Treasurer’s Office and Transportation Department work together to improve the accuracy in reporting, based on ODE’s T-reporting instructions.**
- **Establish a process to properly classify and identify special needs costs and distinguish them from regular busing costs.**
- **Ensure financial information tracked by the Transportation Coordinator is submitted to the Treasurer to help identify special needs expenditures.**
- **Require the Treasurer and Transportation Coordinator to attend the next T-reporting training provided by OASBO and ODE, so that they have a shared understanding of reporting requirements prescribed by ODE.**
- **Develop written procedures outlining the nature of any required collaboration between the Transportation Coordinator and other key administrators, and document the processes used in recordkeeping to help SLSD improve its reporting.**

These steps will help SLSD ensure it is more accurately reporting T-report information which, depending on the type of transportation and potential changes to the State’s funding formula, may be critical in maximizing school transportation funding from the State.

The District does not have formal control procedures to follow for its transportation reporting to ODE. According to District personnel, the Transportation Coordinator completes the T-1 reports. The T-1 reports are approved online by the Treasurer and Superintendent. The T-2 reports are completed by the Treasurer and are approved online by the Superintendent.

T-1 Reports

The T-1 reports are a reflection of ridership counts completed during a designated week in October. The Coordinator follows ODE procedures and then reviews the counts and calculates the required averages. The information is then compared with the data present in the transportation routing software to ensure that the counts are reasonable and that the

ODE one-mile limitation on reported ridership is followed. The T-1 report is then completed and submitted online.

The T-1 reports show an average number of students transported during the first full week of October. Subsequent to the AOS ridership assessment based on the T-1 reports, SLSD provided three separate sets of ridership numbers, based on additional District counts, route sheets, and bus seating charts. This additional data was provided to support the number of buses used and to justify maintaining its existing fleet size.

Bus usage by students fluctuates, and it is generally understood that a district is obligated to transport students who may not regularly ride the bus. The process used by ODE and the averages developed during the count week are intended to accommodate fluctuating ridership. Under standard practices, ridership counts and attendance logs are used to update routing software, classifying those students absent for a specified period (usually a week or two) as inactive and recalibrating the routes to omit the student's stop.

However, SLSD designs its routes to transport all students who have requested transportation services. Updates to these requests are not required of parents, and students absent from or infrequent in their use of yellow bus service are not placed on inactive status. In addition, routes are not recalibrated frequently to reflect changes in ridership. As a result, SLSD maintains a larger fleet than necessary and transports a lower number of student per bus than average.

Table 5-3 shows the ridership reported on the District's T-1 form in FY 2008-09, compared with the various additional counts supplied by the District.

Table 5-3: SLSD Student Ridership

Bus Number	T-1 Report	Original Route Sheet	Difference from T-1 Report	SLSD Seating Chart	Difference from T-1 Report	3/3/09 Route Sheet	Difference from T-1 Report	4/9/09 AOS Count	Difference from T-1 Report	4/9/09 SLSD Count	Difference from T-1 Report
5	89	120	31	119	30	122	33			79	(10)
6	67	123	56	116	49	114	47			73	6
8	70	110	40	115	45	112	42	70	0	71	1
12	48	89	41	84	36	89	41			47	(1)
14	34	61	27	45	11	51	17			24	(10)
15	42	73	31	72	30	72	30	43	1	43	1
17	18	32	14	31	13	34	16			22	4
18	49	85	36	86	37	83	34	42	(7)	43	(6)
19	114	115	1	115	1	118	4	77	(37)	77	(37)
20	73	89	16	84	11	84	11	65	(8)	66	(7)
22	86	107	21	109	23	107	21	72	(14)	74	(12)
23	31	35	4	38	7	36	5			23	(8)
26	72	110	38	115	43	111	39	77	5	77	5
27	80	113	33	116	36	116	36			78	(2)
28	76	86	10	83	7	91	15	64	(12)	67	(9)
30	48	69	21	65	17	50	2	49	1	49	1
31	29	43	14	34	5	42	13			24	(5)
35	54	73	19	63	9	74	20	52	(2)	52	(2)
36	84	108	24	108	24	63	(21)	75	(9)	75	(9)
37	64	90	26	78	14	85	21			61	(3)
38	73	92	19	93	20	96	23	60	(13)	59	(14)
39	73	86	13	88	15	86	13	61	(12)	63	(10)
40	73	118	45	101	28	120	47	65	(8)	65	(8)
41	57	71	14	81	24	73	16	48	(9)	48	(9)
42	52	87	35	89	37	80	28	47	(5)	44	(8)
45	44	59	15	52	8	60	16	42	(2)	47	3
Totals	1,600	2,244	644	2,180	580	2,169	569		(131) ¹	1,451	(149)

Source: SLSD T-1 Reports, Route Sheets, District Counts, Seating Charts

¹ On April 9, 2009, AOS conducted physical ridership counts of some, but not all, District buses. The difference calculated from the T-1 report shows only the difference among those buses counted, and is not intended as a District-wide comparison.

The District's route sheets and seating charts are based on the students entered into the transportation routing system and reflect potential, not actual, riders. The April 9, 2009 student count requested and monitored by AOS staff reflects the actual number of riders

counted on the buses, and is more similar to the ridership numbers reported in the submitted T-1 form. Though District officials cited a higher absentee rate during the count day in April, the rate was similar to the absentee rate during the October count and, therefore, the effect of absences on ridership was determined not to be a factor.

T-2 Reports

The Treasurer compiles the T-2 report. He uses the District's budget summary reports from its financial software system and makes adjustments between the budget summary reports and the categories listed in the T-2 report worksheet. The Superintendent then approves and submits the T-2 data through ODE's online reporting system.

Expenses in the T-2 reports have been misreported for the past three years. The T-2 reports did not separate the correct amounts expended by the District for special needs transportation from FY 2005-06 through FY 2007-08. Specifically, six special needs bus drivers, their associated salaries and benefits, and the maintenance costs on the six buses were not reported as special needs costs on the T-2. Additionally, SLSD did not report the special needs bus aides' salary and benefit costs on the T-2 report. Therefore, the District underreported special needs costs and as a result, has lost reimbursement from the State.

During the course of the audit, SLSD reopened its FY 2007-08 T-2 report to correct its reported expenditures. The funding change was not yet determined at the time of the audit.

Implementing internal controls through formal procedures will help increase the validity and reliability of information reported to ODE. Moreover, accurate reporting will help the District avoid delays in receiving reimbursement from ODE and ensure that it receives the proper amount of State funding based on the transportation services it provides.

R5.3 The District should eliminate at least eight regular needs buses to bring its public ridership capacity closer to optimal levels and ODE targets. To help achieve this ridership level, SLSD should implement the following recommended practices:

- **Conduct frequent ridership counts (as frequently as one per month) and recalibrate routes to achieve maximum ridership.**
- **Monitor active riders and discontinue service to those who may no longer be using SLSD bus service.**
- **Require parents to confirm planned use of District transportation services annually.**

In addition, SLSD should determine a ridership benchmark which reflects its desired service level, balance this service level with its financial condition, and periodically evaluate its success in achieving this level of efficiency.

The District eliminated seven regular buses in its May 18, 2009 Board-approved reductions.

The District deployed 33 active buses in FY 2008-09, using a combination of single and multiple tiers that include public and non-public routes. The District transported a total of 1,852 students, or 56.1 students per active bus, according to its FY 2008-09 T-1 reports.

Service levels, routing parameters, and the geographical attributes of the District affect its ridership and bus utilization rates. First, SLSD offers service levels above the State minimum required transportation level (see **R5.1**). Second, the District establishes bell schedules, bus stops, route times, and riders per bus, all of which affect utilization. SLSD has more routes for middle and high school students (33) than elementary routes (24), in part because the functional capacity of buses is limited by the age (and relative size) of the riders themselves. Third, like all Ohio school districts, SLSD is required to transport non-public school children as part of its service, which influences its overall efficiency.

Actual or “in use” capacity for a given size of bus under all conditions has not been established by the school transportation industry. However, the National Highway Transportation Safety Administration (NHTSA) and NASDPTS have provided information that can be used to develop capacity guidelines.

- NHTSA and NASDPTS indicate that a bus can generally accommodate three smaller riders on a standard 39-inch seat based on hip dimensions of 5th percentile adult female test dummy as specified in Federal Motor Vehicle Safety Standard (FMVSS).² The “in use capacity” is generally understood to accommodate three smaller sized (elementary school) children per seat based on the FMVSS, but only two children of middle or high school age based on the larger sizes of the students. Seating may be further limited by specialized equipment or safety seats.
- These organizations recommend states or school districts establish parameters for bus capacity as part of formal policies.
- The National Conference on School Transportation and NHTSA note that the limiting factor in seating capacity is whether there is sufficient room for a seated child to be completely within the seating compartment and fully shielded by the seat in front of them. Federal crash protection requirements state that the interior

² A 5th percentile adult female dummy is approximately 4-feet 11-inches tall and weighs 102 pounds.

of large buses must provide occupant protection without the need for seat belts. However, this requires occupants to be fully inside the seating envelope to obtain the full crash-protection benefits of the bus construction.

The North Carolina Department of Public Instruction (NCDPI) has implemented NASDPTS recommendations for states to establish “in use capacity” for school buses. The NCDPI notes that the maximum capacity for grades 9-12 is calculated as the number of seats times two (i.e. two students per seat). The maximum capacity for grades 6-8 is calculated as the number of seats times 2.5, where half of the seats would have two students and half would have three students. The maximum capacity for grades kindergarten through 5 is calculated as the number of seats times 3 (i.e. three students per seat). Finally, NCDPI cautions districts that they must provide seating within the seating compartment for all students assigned to the bus, whether or not the assigned load reaches the maximum capacity.

For the capacity analysis of SLSD, auditors applied a benchmark “in use” bus capacity for a 72-passenger bus using 3 elementary students per seat and 2 students per seat for middle and high school students. This capacity was then prorated at 80 percent to accommodate potential ridership fluctuations that occur throughout the year. **Table 5-4** shows the comparison of SLSD bus utilization with the benchmark “in use” capacity during FY 2008-09, based on all regular bus riders.

Table 5-4: SLSD FY 2008-09 Ridership Analysis

	SLSD FY 2008-09
Total Number of Active Regular Buses	33.0
Potential “In Use” Capacity	3,312.0
Potential “In Use” Capacity per Bus	100.4
<hr/>	
District's Number of Regular Type I Riders (All Riders)	1,852.0
District Average per Bus (All Riders)	56.1
<i>Number of Buses needed to Achieve Benchmark “In Use” Capacity</i>	<i>19</i>
<i>Number of Buses Over (Under) Benchmark</i>	<i>14</i>
<hr/>	
District's Number of Regular Type I (Public School) Riders	1,665.0
District Average per Bus	59.5
<i>Number of Buses to Achieve Benchmark “In Use” Capacity for Regular Public School Riders</i>	<i>16</i>
<i>Number of Buses Over (Under) Benchmark</i>	<i>12</i>
<i>Number of Buses Over (Under) Benchmark Based on 80% “In Use” Capacity</i>	<i>9</i>

Source: SLSD FY 2008-09 T-1 Report

According to **Table 5-4**, the District operates substantially below benchmark capacity based on the average ridership presented in its T-1 report for FY 2008-09. Based on the

benchmark “in use” capacity, and removing non-public riders and routes from the calculation, the number of buses that can be eliminated is 12. Applying an 80 percent factor to accommodate fluctuations in ridership limits the number of buses that could be reduced to 9.

Once target “in use” capacity was calculated, auditors compared the actual and potential utilization rates with the ODE target efficiency ratio for the District. ODE calculates optimal ridership for each district in Ohio, but it adjusts its “in use” capacity benchmarks to account for geographic size and configuration (square miles) and population density. It compares its calculations with information reported on the T-1 forms and establishes an “efficiency rating” for each district. The State average ridership ratio is 1.0. **Table 5-5**, shows the calculated targeted efficiency determined by ODE for SLSD in FY 2008-09.

Table 5-5: SLSD’s FY 2008-09 ODE Target Efficiency Ratio

Bus Count	Square Miles	Total Riders > 1 Mile	Riders Per Bus	Density: Riders/ Square Mile	Adjusted Target Ridership	Actual Riders/Bus	Ridership Ratio
33	29	1,758	53.3	60.6	71.4	53.3	0.75

Source: ODE FY 2008-09 Targeted Efficiency.

Table 5-5 shows SLSD’s ODE targeted ridership is 71.4 riders per bus. Based on current ridership, ODE calculates SLSD’s efficiency ratio as 0.75, or less efficient than similar districts. To meet ODE’s target efficiency, SLSD would have to reduce its fleet by eight active buses.

Reducing the active bus fleet by eight buses will require rerouting and changes to route parameters in the routing software. Seat assignments and seat guarantees for students eligible for transportation should be discontinued, and SLSD should adopt leading practices for attendance monitoring and route recalibration, as used in the Cincinnati City School District (Hamilton County), and annual confirmation of need for transportations services, as used by the Anthony Wayne Local School District (Lucas County). Using these practices would help SLSD continue its high level of service to its students without incurring unnecessary costs for its transportation operations. The District can achieve significant savings in its transportation operations without reducing service.

Financial Implication: SLSD could save a minimum of \$232,500 by eliminating eight active regular buses. This includes savings from reduced salaries, benefits, and overhead costs such as bus insurance.

R5.4 SLSD should develop and maintain a bus replacement plan to ensure that it is properly planning and budgeting for the replacement of its fleet. The bus replacement plan should contain the age and mileage of every bus in the fleet and the estimates of these figures at the projected replacement date for each bus. The

Transportation Coordinator and the Treasurer should manage the plan, ensuring periodic updates and annual evaluations of all maintenance and repair costs for each bus. Developing a replacement plan containing this information should help the District to effectively plan for the replacement of buses at the most advantageous points in their lifecycles.

SLSD does not have a written bus replacement plan. The Coordinator uses the maintenance transaction report, an in-house District spreadsheet used to track maintenance costs, to determine whether it is more cost effective to continue maintaining a vehicle or to replace it. The age of the vehicle is, in some cases, not a factor. There are buses at SLSD that are older but in better working order than some newer buses. The costs of maintaining the vehicle is a major factor when deciding if a bus is to be placed in operation or replaced.

According to a position paper, *School Bus Replacement Considerations* (NASDPTS, January 2002), the timely replacement of school buses must be a planned process. Establishing school bus replacement policies is an important activity, since it directly impacts the timeliness of introducing the latest safety, efficiency, and emissions improvements into the fleet. The elimination and replacement of school buses that do not meet the latest standards or requirements must be planned within a realistic number of years. At least two scenarios should have an impact on decisions concerning school bus replacement:

- First, whenever there is a significant improvement in the federal standards for the safety, fuel efficiency, or exhaust emission requirements of school buses, it appears reasonable to establish a policy with respect to timely replacement of the older buses with newer school buses.
- Second, whenever the operating and maintenance expenses of a school bus, or group of school buses, reaches a certain level, it appears that the better economic decision would be to purchase a new bus rather than continue to maintain the older school bus.

The lack of a formal bus replacement plan may result in a decrease in the efficiency and reliability of the District's fleet. In addition, SLSD may not be in optimal position to identify which buses need to be replaced. Finally, without a formal plan, the District may face the need to replace several buses at one time, incurring a substantial cost to ensure the effectiveness of its fleet. Creating a bus replacement plan will enable the District to anticipate large expenditures in future years when buses need to be replaced.

R5.5 SLSD should develop a preventive maintenance plan using examples from recommended practices. These might include maintenance schedules from the American Public Works Association (APWA) and preventive plan examples provided by other school districts or school agencies. By using a preventive maintenance plan, the District can ensure its fleet is operating efficiently, and can lower its risk of breakdowns and higher repair costs.

SLSD does not have a written preventive maintenance plan for its bus fleet, but depends on the technical experience and observation of its transportation employees. A mechanic and two part-time mechanic helpers perform the District's fleet maintenance in-house. The mechanic manually tracks maintenance to be performed on the District's vehicles. The Transportation Coordinator tracks the maintenance costs on a per bus basis using a spreadsheet developed by District personnel. This report tracks the costs of repairs and labor hours for each individual vehicle. The District's maintenance costs are significantly below the peer average costs per bus, per rider, and per routine mile (see **Table 5-2**).

The APWA's *Public Works Management Manual* (Fourth Edition), states effective equipment management requires repairs to be made before equipment fails. This involves a preventive maintenance approach to provide for systematic, periodic servicing of equipment to facilitate operations with a minimum amount of downtime. Well-planned preventive maintenance programs will result in dependable fleets and extended equipment life with lower operation, maintenance, and repair costs. Planning and scheduling maintenance activities requires providing the right maintenance at the right time at the lowest overall cost. The preventive maintenance program (PM) should include the following steps.

- Schedules are developed for all equipment;
- Routine evaluations of the PM program are performed to ensure timely and effective administration;
- Procedures are developed to respond to emergency repairs or breakdowns;
- Maintenance and repair activities are prioritized and scheduled for maximum shop efficiency; and,
- The program is evaluated to ensure it is performed and administered in an effective manner.

The North Carolina Department of Public Instruction has established a policy to serve as a procedural guide for school bus preventive maintenance steps. The guide provides checklists for performing bus preventive maintenance based on mileage. Each interval describes the type of maintenance to be performed, such as changing coolant at 30,000 mile intervals, based on manufacturer's specifications and recommendations.

SLSD could risk costly repairs if preventive maintenance is not performed for each vehicle. By establishing a written preventive maintenance plan, the District will ensure it is properly maintaining its buses.

Summary of Financial Implications

The following table represents a summary of estimated annual cost savings identified in this section of the report.

Summary of Financial Implications for Transportation

Recommendations	Annual Cost Savings
R5.6 Eliminate eight active buses	\$232,500
Total Financial Implication	\$232,500

Source: AOS Recommendations

This page intentionally left blank.

Food Service

Background

This section of the performance audit focuses on the food service operations of Sugarcreek Local School District (SLSD or the District). Operational procedures and the financial condition of the District's food service program were analyzed for the purpose of developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost saving approaches for the District in its efforts to address the projected need to subsidize food service operations from the General Fund. The District's operations were compared with recommended practices and operational standards from various sources including the National Food Service Management Institute (NFSMI), the Ohio Revised Code (ORC), the Government Finance Officers Association (GFOA), and selected peer districts.¹

Summary of Operations

SLSD's food service operations are outsourced to Sodexo Management, Inc (Sodexo or the Contractor), a private provider of food and facilities management services. The District has contracted with Sodexo since 2000. Previously, SLSD operated its food service program under an agreement with Dayton City Schools, which it terminated due to low student participation. SLSD renewed its original agreement with Sodexo in July 2005. This agreement, an annual contract from July 1, 2005 through June 30, 2006, has been renewed annually four times, exhausting the maximum number of additional one-year terms.

Under the terms of the contract, Sodexo agrees to provide nutritional breakfasts (if applicable), lunches, milk service, and a la carte items to students, employees, visitors, and guests of the District. Sodexo also agrees to provide qualified management/professional employees to manage food service operations and supervise all employees. For its services, Sodexo directly charges the District for food and beverages, labor, support services, and other expenditures, as well as a management fee.

The contract stipulates that SLSD and Sodexo will work together to ensure a financially sound food service operation. If the District incurs an operating deficit in the Food Service Fund, Sodexo is contractually obligated to reimburse SLSD for the deficit up to an amount not to exceed its annual management fee. Sodexo may recover reimbursed amounts from future Food Service Fund surpluses.

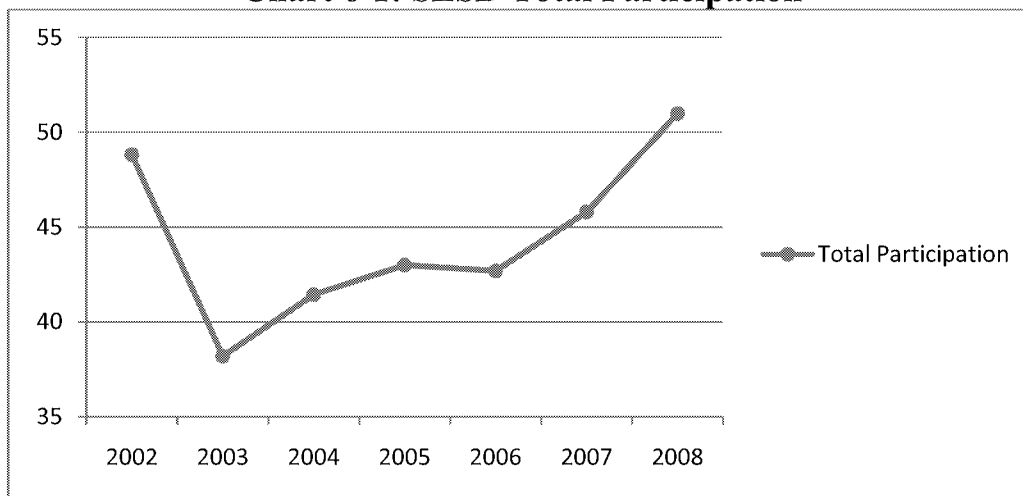
¹ See the **executive summary** for a description of the 10 peer district average used as a benchmark throughout this performance audit.

The Business Manager, a part-time District employee, oversees the food service function. The Food Service Manager, who is responsible for managing daily operations, designing the menu, preparing and administering the food service budget, and preparing and maintaining necessary records, manages the food service function. The Food Service Manager and food service employees, cooks, and drivers, are Sodexho employees and not considered District employees. However, SLSD pays retirement contributions for the employees to the Ohio School Employees Retirement System.

Sodexho prepares and serves breakfast and lunch mainly at each individual building; however, it performs some centralized cooking at the high school. Data and cash collection is automated through the QSP Point of Sale System. During FY 2007-08, the District upgraded its software system for each school cafeteria. The software identifies students by PIN numbers and it calculates the total amount owed and automatically deducts this amount from the student's account.

One of the primary reasons for SLSD entering into a contract with Sodexho for the management of its food service function was to increase student participation, a measure used to show a district's student support of its lunch program. Prior to the contract, SLSD experienced low participation because of what District administrators felt was a subpar food service program. **Chart 6-1** displays SLSD's total participation percentages from FY 2001-02 to FY 2007-08. FY 2000-01 was the first year the District was served by Sodexho, but this data was not available from ODE.

Chart 6-1: SLSD Total Participation



Source: ODE

As shown **Chart 6-1**, SLSD's participation has been increasing steadily since a significant drop-in FY 2002-03. From FY 2004-05, the first year of the second contract with the Sodexho, to FY

2007-08, total participation increased from 43 percent to 51 percent. Despite this increase, SLSD's student participation in its food service program remains low in comparison with the peers, as displayed in **Table 6-1**.

Table 6-1: SLSD and Peer District FY 2007-08 Participation

	SLSD	Peer Average	Difference
Total Meals Served	130,951	450,889	(319,938)
Average Daily Participation	764	2,590	(1,826)
Total Meal Equivalents Served ¹	134,412	598,630	(464,218)
Average Daily Participation (ADP) of Average Daily Attendance (ADA)			
	32.4%	48.3%	(15.9%)
% Total Participation	51.0%	63.3%	(12.3%)

Source: SLSD and peer MR60 Reports, May 2008.

Note: Totals may vary due to rounding

¹ Meal equivalents are based on definitions from NFSMI and include regular lunches as well as conversions for breakfast and a la carte sales.

As illustrated in **Table 6-1**, SLSD's participation rates were below the peer averages in FY 2007-08. Average daily participation (ADP) of average daily attendance (ADA) is the indicator of how many students purchased reimbursable lunches. Total participation is the percentage of students that are supporting the District's cafeteria. The calculation of total participation includes both reimbursable meals and non-reimbursable items, such as other food sales, ala carte items, and second lunches. Lower than average participation factors yield lower than average revenue, as illustrated in **Table 6-2**. Methods of increasing participation are examined in detail in **R6.3**.

Financial Condition

ORC § 3313.81 requires that each school district establish a food service fund separate from all other funds of the board. SLSD's food service function is organized as an enterprise operation, which is intended to be self-funded, relying on revenue (from services and reimbursement) to support the costs of the operation. Under Ohio law, food service operations may not be used to make a profit. **Table 6-2** illustrates SLSD's Food Service Fund financial data for FY 2005-06 through FY 2007-08.

Table 6-2: SLSD Food Service Fund Financial Data

	FY 2005-06	FY 2006-07	Percent Change	FY 2007-08	Percent Change	3-Year Change
Revenue						
Student Charges	\$459,391	\$536,643	16.8%	\$540,922	0.8%	17.7%
Earnings on Investments	\$1,424	\$2,464	73.1%	\$1,053	(57.3%)	(26.1%)
State Grants-In-Aid	\$3,199	\$2,567	(19.8%)	\$3,065	19.4%	(4.2%)
Federal Grants-In-Aid	\$62,108	\$103,712	67.0%	\$108,545	4.7%	74.8%
Total Revenue	\$526,121	\$645,387	22.7%	\$653,584	1.3%	24.2%
Expenditures						
Employees Retirement and Insurance Benefits (ERIB)	\$9,571	\$0	(100.0%)	\$10,050	100.0%	5.0%
Purchased Services	\$536,826	\$645,013	20.2%	\$654,813	1.5%	22.0%
Supplies and Materials	\$0	\$0	0.0%	\$0	0.0%	0.0%
Other Object Codes	\$0	\$0	0.0%	\$500	0.1%	0.1%
Total Expenditures	\$546,396	\$645,013	18.0%	\$665,364	3.2%	21.8%
Revenue Over (Under) Expenses	(\$20,276)	\$374	101.8%	(\$11,779)	3,251.2%	41.9%
Transfers/Advances						
Transfers-In	\$19,571	\$0	(100.0%)	\$11,000	NA	(43.8%)
Spending Surplus (Deficit)	(\$704)	\$374	(153.1%)	(\$779)	(308.5%)	10.7%
Beginning Fund Balance	\$1,204	\$500	(58.5%)	\$874	74.8%	(27.4%)
Ending Fund Balance	\$500	\$874	74.8%	\$94	(89.2%)	(81.1%)

Source: SLSD year-end financial reports

As shown in **Table 6-2**, SLSD experienced a significant increase in both revenue and expenditures in FY 2006-07. These increases are the result of increased participation in the program, as total meals served increased 18.7 percent in FY 2006-07. In two out of the three years displayed (FY 2005-06 and FY 2007-08), SLSD's food service expenditures exceeded revenue. As a result, the District had to transfer General Fund dollars into the Food Service Fund to cover the deficit. Transfers differ from advances, which are made in anticipation of future revenue and repaid at a later date. Advances often take place due to the timing of receiving reimbursements, while transfers are the result of insufficient revenue generated to cover operations. As illustrated in **Table 6-2**, SLSD transferred \$19,571 into the Food Service Fund in FY 2005-06 and \$11,000 in FY 2007-08.

Table 6-3 illustrates financial data for FY 2007-08 and compares SLSD's Food Service Fund revenue and expenditures with the peer averages on a per meal equivalent basis.

Table 6-3: SLSD and Peer District FY 2007-08 Revenues and Expenditures

	SLSD	Peer Average	Difference	
Total Meal Equivalents Served	227,932	598,630	(61.9%)	
Revenue per Meal Equivalent				
Total Operating Revenue	\$2.37	\$2.64	(\$0.27)	(10.1%)
Total Non-Operating Revenue	\$0.49	\$0.52	(\$0.02)	(4.3%)
Total Revenue	\$2.87	\$3.15	(\$0.29)	(9.1%)
Expenditures per Meal Equivalent				
Total Expenditures	\$2.92	\$3.14	(\$0.22)	(7.1%)
Gain(Loss) per Meal	(\$0.05)	\$0.01	\$0.06	NA
Meal Prices				
Elementary School	\$2.30	\$2.10	\$0.20	9.5%
High School	\$2.90	\$2.43	\$0.47	19.2%

Source: SLSD and peer year-end financial and federal claim reimbursement reports.

Note: Totals may vary due to rounding

As illustrated in **Table 6-3**, SLSD generated 9.1 percent less revenue per meal than the peer average in FY 2007-08. However, FY 2007-08 SLSD lunch prices were 9.5 percent and 19.2 percent higher than the peer averages at the elementary school and high school respectively. District expenditures per meal equivalent were also lower (7.1 percent) than the peer average. However, in FY 2007-08, SLSD's expenditures were 1.7 percent higher than revenue, resulting in a \$.05 loss for every meal produced.

Food Service Audit Objectives

The following is a list of the questions used to evaluate the food service functions at SLSD:

- What is the financial status of the District's Food Service Fund?
- How can the District improve the efficiency of its food service staff?
- Are the District's meal prices in line with area peer districts?
- What can the District do to maximize program participation?
- Does food service management effectively use data to make strategic plans and operational decisions?

Since SLSD contracts with a food service company, the District will need to discuss recommendations that affect the contract with the food service provider.

Recommendations

R6.1 SLSD should develop a food service strategic plan with specific goals and objectives that support, and are consistent with, District-wide strategic planning efforts. SLSD should use these strategic goals and objectives when developing its annual budget for the Food Service Fund. Furthermore, SLSD should develop a five-year financial forecast and a comprehensive set of performance measures (see R6.2) for the Food Service Fund to assist management in addressing or minimizing operating deficits. These planning tools will help SLSD improve program performance and maintain alignment with District-wide goals.

SLSD does not have a formal food service strategic plan to guide the operation in setting and achieving operational goals, measuring progress, or forecasting revenue and expenditures. The Food Service Manager determines staffing levels, compiles reports for the District, and is responsible for the creation of reports for reimbursement. Meal price determination is a coordinated effort between the Food Service Manager and the Business Manager.

According to *Best Practices in Public Budgeting* (GFOA, 2000), a government should prepare policies and plans to guide the design of programs and services. These policies and plans may address items such as groups or populations to be served, service delivery issues, examples of possible programs, standards of performance, expected costs, time frames for achievement of goals, issues pertaining to organizational structure, and priorities for service provision. While these broad long-range plans guide operations, they must be supplemented and integrated with short-term operations planning.

An important component of a strategic plan for the food service operation is a current year budget and a long-range forecast. According to *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999), a budget provides several key benefits. It can help a manager or director forecast revenue and expenses based on prior year data, estimates, and planned changes; serve as a tool for identifying potential problems by contrasting actual financial activity with projected activity and providing a basis for comparison; and be used to set performance standards, control erratic expenditures, and help a manager determine if the program can afford to make purchases.

In addition to annual budgets, forecasting revenue and expenditures over a five-year period for long-range planning can give the administration sufficient notice of emerging issues so that action can be taken to correct them. With increases in labor, supplies, and other operating costs, lunch prices and cost saving measures need to be evaluated annually.

Without a central, formalized strategy, SLSD is unable to monitor the implementation and effectiveness of its operational decisions. A food service strategic plan, budget, forecast, and performance measures will provide a more complete picture of financial and operational conditions and help the District avoid using General Fund money to support the operation.

R6.2 SLSD should negotiate performance measures into its food service contract and link negotiated payment amounts to these measures. In particular, the District should establish minimum meal service ratios, such as a meals per labor hour (MPLH) ratio based on estimated meal equivalents served per day, and use these ratios to formulate contracted costs.

MPLH² is a measurement of food service operational productivity and efficiency. **Table 6-4** compares SLSD’s food service labor hours with the NFSMI recommended benchmark for efficient operations.

Table 6-4: SLSD FY 2007-08 Meals per Labor Hour Comparison

Building	Total Meal Equivalents Served per Day	Total Labor Hours Per Building	MPLH	Convenience System, High Productivity Level	Over / (Under) National Standard	Total Labor Hours Required	Equivalent Labor Hours Over/(Under) National Standard
Stephen Bell Elementary School	213	9.5	22.4	15.0	7.4	14.2	(4.7)
Bell Creek Intermediate School	281	14.5	19.4	16.0	3.4	17.6	(3.1)
Bellbrook Middle School	427	25.8	16.6	19.0	(2.4)	22.5	3.3
Bellbrook High School	413	35.5	11.6	19.0	(7.4)	21.7	13.8
Total	1,334	85.3			1.0	76.0	9.3

Source: Sodexho labor hours and national standards.

Table 6-4 indicates that in FY 2007-08, SLSD used 9.3 more daily labor hours for the number of meals it served than recommended by the NFSMI benchmark. While the elementary and intermediate schools were below the national benchmark, the middle and high schools were a combined 17.1 labor hours above the national standard. Section 2.12(B) of the District’s contract outlines the payments to be made to Sodexho for labor, including salaries, bonuses (if any), wages, taxes, benefits, retirement plans and the cost of administering such plans and services, and relocation expenses. The contract does not contain any provisions that hold the Contractor responsible for the efficient use of labor hours or performance targets.

Performance measures can be used to document progress towards food service operational goals. In *Performance Management: Using Performance Measurement for*

² The measurement is calculated by dividing the total labor hours worked by the total meal equivalents served per day at each building.

Decision Making (GFOA, 2002), GFOA recommends that performance measures should be based on program goals and objectives and used to measure the efficiency and effectiveness of program results or accomplishments over time. Performance measures are important components of long term strategic planning and decision making. The Springfield Local School District (Summit County) tracks the performance of its food service operation on a monthly basis. Analyses are performed at the building and district-wide level. Measures used to analyze the food service operation include operating profit or loss, labor costs per meal, meals per labor hour, food costs per meal, and the number of free and reduced lunches at its schools. In all instances, GFOA notes that policies and plans should be adopted by the governing body and made publicly available.

Labor typically makes up a large percentage of total expenditures in any organization. For FY 2007-08, total salaries and wages made up approximately 47 percent of SLSD's food service invoice amounts. This represents a large expenditure that the District cannot control, as the staffing and management of the program is outsourced to the Contractor. Without including any stipulation for performance or staffing efficiency in the contract, SLSD is unable to exercise control over excessive labor costs.

While the financial impact of performance targets is difficult to estimate, the food service operation could save 9.3 labor hours per day of operational expenses by bringing its MPLH in line with national benchmarks, which the Contractor could use to reduce its costs to the District. Based on an average of \$16.92 per hour in wages and benefits for 180 days, the District could save approximately \$28,300 per year in food service operations costs. This level of savings would relieve SLSD of the need to use General Fund dollars to support the Food Service Fund.

Financial Implication: Reducing the Contractor's labor hours to recommended MPLH efficiency levels could save approximately \$28,300 per year, including benefits, in food service costs.

R6.3 In order to have an accurate representation of operational costs, SLSD should charge all related expenses to the Food Service Fund, regardless of the Food Service Fund's ability to maintain a positive fund balance. Allocating all food service expenses to the Food Service Fund will provide a more accurate financial picture, which will in turn, help improve decision making related to revenue and program adjustments.

SLSD has not historically accounted for all appropriate purchased services for its food service operations. Utility costs, such as electricity and natural gas, were not allocated to the Food Service Fund, but instead were completely paid from the General Fund.

Measuring the Cost of Government Services (GFOA, 2002) recommends that governments calculate the full costs of services they provide for a variety of purposes, including performance measurement and benchmarking. The full costs should include all direct (salaries and benefits) and indirect costs (shared costs such as facilities and maintenance). The indirect costs should be apportioned by some systematic and rational allocation methodology. Moreover, ORC § 3313.81 requires the Food Service Fund to be kept separate from all other funds, including the General Fund. All receipts and disbursements in connection with the operation of food service are to be paid directly into, and disbursed from, the Food Service Fund.

Even though SLSD's Food Service Fund has incurred operating deficits in the past, it is still important to account for all costs. Not charging expenditures used for the provision of food services to the Food Service Fund creates an inaccurate depiction of the cost of the operation. Accurately capturing all costs in the Food Service Fund will help SLSD evaluate the true efficiency and performance of the operation and effectively plan for future needs. SLSD should develop and implement a detailed methodology for allocating appropriate utility expenditures (electricity, gas, water/sewer, and trash) within its strategic plan and annual budget (see R6.1). One common method for calculating appropriate food service utility expenditures is to prorate expenditures based on the square footage of the cafeteria and kitchen as a percent of total building square footage.

R6.4 SLSD should attempt to increase participation rates in its lunch programs in order to maximize federal reimbursement and sales. Specifically, setting goals based on the results of student and parent surveys may help the District improve operations and increase participation. Improving areas of concern within food service may help SLSD attract additional student to use the program, increase participation, and ultimately increase revenue.

Table 6-5 shows SLSD's FY 2007-08 student participation rates compared with the peers.

Table 6-5: FY 2007-08 SLSD and Peer Participation Rates

	SLSD	Peer Average	Difference
Total Meals Served	130,951	450,889	(319,938)
Average Daily Participation	764	2,590	(1,826)
Percent Free of Total	21.2%	10.8%	10.3%
Percent Reduced Price of Total	4.7%	4.1%	0.6%
Average Daily Participation of Average Daily Attendance	32.4%	48.3%	(15.9%)
Percent Total Participation	51.0%	63.3%	(12.3%)

Source: FY 2007-08 MR 60 food service reports, SLSD and peers

In FY 2007-08, SLSD's participation in the school lunch program was 15.9 percent below the peer average for reimbursable lunches. When including non-reimbursable a la carte sales, the District was 12.3 percent below the peer average. A higher percentage of free and reduced lunches often results in higher total participation. This is not the case at SLSD, though, as 21.2 percent of SLSD's total meals were free, compared with the peer average of 10.3. Furthermore, 4.7 percent of SLSD's total meals were reduced price, compared with 4.1 percent for the peers.

Lower than average participation rates can be caused by many factors. For example, a district may not be providing lunches to students in the most effective manner, leading to additional time spent in lunch lines. Similarly, limited choices of food items may impact participation.

School Foodservice Management for the 21st Century (Pannell-Martin, 1999) suggests that improving communication with customers can help increase participation. The four techniques for communicating with customers (students and parents) regarding preferences include informal interviewing of students and parents, small-group discussions, suggestion boxes, and taste parties or sampling. In addition, *Recipes for Practical Research in Child Nutrition Programs* (NFSMI, 1998) recommends food service programs seek customer feedback from students and parents. Data gathered from students and parents should be the basis for developing enhancements in food service and nutrition programs. By evaluating customer feedback and working to continually improve operations, districts can ensure sound customer bases and improved financial stability.

Using surveys could help SLSD increase participation and set performance goals based on the results of these surveys. Omitting District-wide student surveys pertaining to food service limits SLSD's ability to gauge customer satisfaction and address issues within the program that affect participation. Furthermore, the results can be incorporated as a component of the program's performance goals (see **R6.2**), which should be incorporated into the strategic plan (see **R6.1**). Garnering stakeholder input and setting goals based on the results would help District administrators raise or at least maintain participation rates and, by extension, use the increased revenue to prevent deficits in the Food Service Fund. As food service operations contain fixed-cost components, it is important the District maintain a high participation rate, thereby ensuring a lower cost per meal for fixed expenses.

Financial Implication: Increasing participation for reimbursable lunches and a la carte sales by 8.0 percent, a level approaching the peer average, could increase Food Service Fund revenue by \$43,000 annually.

Financial Implications Summary

The following table represents a summary of estimated annual cost savings identified in this section of the report.

Summary of Financial Implications for Food Service

Recommendations	Annual Cost Savings
R6.2 Require Contractor to meet NFSMI benchmarks and reduce labor costs	\$28,300
R6.4 Increase participation closer to peer average	\$43,000
Total Financial Implication	\$71,300

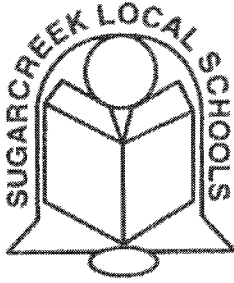
Source: AOS Recommendations

DISTRICT RESPONSE

District Response

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

The room counts for Stephen Bell Elementary were derived from the building floor plan provided by the District and verified by a walkthrough with District personnel. Student capacity for the elementary school was calculated by multiplying the number of regular classrooms by 25 students, the number of kindergarten and preschool rooms by 25 students for all-day programs (by 50 for half-day programs), and the number of special education classrooms by 10 students. Classrooms used for gym, music, art, library, and computer labs are set asides, and are excluded from the number of rooms used in the calculation. Although this varies from the design capacity, it is consistent with standard methodologies used to calculate building capacity. However, readers should be aware that, with the passage of House Bill 1, the functional capacity of SLSD's elementary schools will change based on its need to reduce class sizes and meet new operating standards.



SUGARCREEK LOCAL SCHOOL DISTRICT
"Soaring Toward Excellence"

KEITH A. ST. PIERRE, Ed.D.
Superintendent

September 14, 2009

Mary Taylor
Auditor of State
88 E Broad St
Columbus OH 43215

Dear Ms. Taylor:

This letter is a response to the performance audit conducted by the state auditors for the Sugar Creek Local School District. The audit was conducted from January 2009 through August 2009.

During the audit process the auditors were very thorough and provided relevant suggestions to the district. The auditors had a more difficult task since the district made three (3) phases of cutbacks and passed two (2) levies during the course of their audit. The cutbacks, new levies, and passage of the governor's new OEBM, with many new unfunded mandates, created several revisions of the audit report.

We found the report to be helpful through the process of cutting our budget this past year and for future financial planning. We disagree with only one point in the audit report where the capacity for Stephen Bell Elementary is listed higher than the architect who designed the building and higher than what is physically possible in a K-2 primary building.

Special thanks to [REDACTED] Senior Audit Manager, for his leadership and cooperation throughout the performance audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith A. St. Pierre". The signature is written in a cursive style with a large initial "K".

Keith A. St. Pierre, Ed.D.
Superintendent of Schools

c Kevin Liming, Treasurer



**Auditor of State
Mary Taylor, CPA**

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