



Mary Taylor, CPA
Auditor of State

WARRENSVILLE HEIGHTS
CITY SCHOOL DISTRICT
PERFORMANCE AUDIT

JUNE 23, 2009



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To the Residents and Board of Education of the Warrensville Heights City School District:

On May 5, 2008, Warrensville Heights City School District (WHCSD) was placed in fiscal caution due to the possibility of ending the 2009 fiscal year in a deficit and incurring additional deficits in future years. Pursuant to ORC § 3316.031 and ORC § 3316.042, a performance audit was initiated in May 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 conditions which brought about the declaration of fiscal caution.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of WHCSD'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 alternatives independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the fiscal caution designation; a district overview; the scope, objectives and methodology of the performance audit; and a summary of recommendations, issues for further study and financial implications. This report has been provided to WHCSD, 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 for 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

June 23, 2009

Executive Summary

Project History

Ohio Revised Code § 3316.042 permits the Auditor of State (AOS) to conduct a performance audit of any school district in a state of fiscal caution, watch, or emergency and review any programs or areas of operations in which it believes that greater operational efficiency, effectiveness, and accountability can be achieved. The Ohio Department of Education (ODE) placed Warrensville Heights City School District (WHCSD) in fiscal caution on May 5, 2008. Because of its projected financial position, WHCSD was selected to receive a performance audit.

Based on research and discussions with WHCSD officials, the following areas were selected for assessment in the performance audit:

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

The goal of the performance audit process is to assist WHCSD administrators and the Board of Education in identifying cost savings opportunities and improving management practices. The ensuing recommendations comprise options that the District should consider in its continuing effort to improve and stabilize its long-term financial condition. The District developed a plan to address its fiscal caution status that was approved by ODE on December 1, 2008.

District Overview

WHCSD is located in Cuyahoga County and serves the residents of Warrensville Heights, Highland Hills, and North Randall. In fiscal year (FY) 2007-08, it provided educational services to an average daily membership of 2,402¹ preschool through twelfth grade students. During FY 2007-08, the District received approximately 56.5 percent of its revenues from local taxes, 38.2 percent from the State, and 5.3 percent from federal revenue. WHCSD's total expenditures per pupil were \$14,294.

In May 2008, the District's five-year forecast projected a deficit of \$3.9 million in FY 2011-12. A revised forecast, developed as a component of this audit, shows that the District may have a

¹ Based on February 2008 headcount as reported to ODE in the Education Management Information System.

deficit of about \$500,000 starting in FY 2008-09 and, by the end of the forecasted period, could be facing a deficit of \$16.8 million. WHCSD has experienced considerable administrative turnover which has reduced continuity and accountability in the financial management and oversight of the District. As a result, internal controls, financial reporting, and oversight are inadequate, leading to unreliable financial and management information. Furthermore, due to the lack of management controls, the District is behind in its financial reporting obligations and has historically submitted inaccurate data to ODE.

In FY 2007-08, the District employed approximately 335 full-time equivalent (FTE) staff consisting of 28 FTE administrators, 178 FTE educational personnel, 11 FTE professional/technical personnel, 49 FTE office/clerical staff, and 55 FTE operations and other staff. The regular education student-to-teacher ratio in FY 2007-08 was approximately 18.2:1. Also, in FY 2007-08, the District met 4 of 30 academic performance indicators established by ODE and was categorized as an academic watch district. In a comparison of staffing levels and average salaries to the peer districts, WHCSD's salaries were higher in every category examined and its staffing levels were higher in six of the ten categories reviewed. During the course of the audit, the District and its two bargaining units agreed to a zero percent wage increase for FY 2008-09. The certificated contract includes the option to revisit wage increases in February, 2009. Despite a decline in enrollment and its projected financial condition, the Board hired additional personnel in FY-2008-09, adding to the total full time employees working in the District.

WHCSD operates six schools: one high school (grades 9 through 12), one middle school (grades 7 and 8), and four elementary schools (three housing grades pre-school through 4, and one housing grades 5 and 6). The District also operates a recreation center that adjoins the high school. The recreation center does not generate sufficient revenue to cover its operating expenditures and, on average, about \$200,000 is either transferred from or directly paid out of the General Fund annually for its operation. The District is working with the Ohio School Facilities to develop a new facilities master plan. However, the maintenance and operations function is not cost effective when compared to the peer districts and national benchmarks.

WHCSD used 10 active buses and 1 spare to transport 563 riders in FY 2007-08. In FY 2006-07, WHCSD's expenditures per rider, per bus, and per routine mile significantly exceeded the peer average. Although the District's higher population density allows buses to make shorter runs and travel fewer miles, this is not reflected in a greater level of efficiency and there are several opportunities for substantial savings in the District's transportation operations.

The Food Service Department had net operating losses of approximately \$19,000 in FY 2004-05, \$196,000 in FY 2005-06, and \$313,000 in FY 2006-07. In FY 2008-09, the District implemented a reduction in the Department's labor hours in order to reduce costs. In addition, the District increased meal prices for middle and high school students. The price increase will bring

WHCSD's meal prices more in-line with the surrounding districts and is a strategy to increase revenues to help the Food Service Department become self-supporting.

The audit identified significant cost savings for WHCSD and most savings could be achieved without a substantial change in service levels. In many areas, poor planning and oversight has contributed to higher-than-necessary costs and services that may not meet the needs or expectations of the District or its stakeholders. In order to ensure it avoids future deficits and corrects its financial condition, District administrators and the Board will need to exercise diligent, long-term management control over District operations.

Subsequent Events

In November 2008, WHCSD began using a private vendor to provide the food service operation in a pilot program at Westwood School. This pilot program will be used by the District to evaluate the option of privatization of food services.

The District purchased a substitute calling system and it is scheduled to be in operation for the 2009-2010 school year.

The Ohio Department of Taxation is projecting a decrease in assessed valuations for many Ohio counties in the next year and in addition, projects that these negative cycles will extend into future years. Changing economic factors related to assessed property valuations and tax delinquencies may negatively impact the District's revenue. This information was not available at the time that AOS developed the recovery plan shown in this report. This District should review the most recent information available, recalculate revenue projections in its five-year financial forecast, and incorporate any changes into its calculation of required savings and decisions regarding District operations.

The Human Resources Director submitted a proposal to the Superintendent to reduce 7 administrative, 3 clerical, and 19.5 paraprofessional positions. In addition, the District is exploring options for conducting a job audit during the summer of 2009.

In May 2009, the Superintendent indicated that ODE had completed its Diagnostic Process, which reviews factors influencing academic performance in the District. According to the Superintendent, WHCSD is formulating a plan to address recommended corrective actions proposed as part of the Diagnostic Process.

On May 25, 2009, ODE accepted WHCSD's updated five year forecast which projected a deficit beginning in FY 2010-11 of \$1.1 million and escalating to \$13.2 million in FY 2012-13. With the passage of a renewal levy in FY 20010-11, these deficits decrease to \$201,699 in FY 2010-11 and \$8.6 million in FY 2012-13.

Objectives

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation 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.

The overall objective of this performance audit is to assist the District in identifying strategies to eliminate the conditions that brought about the fiscal caution declaration. The following presents the major assessments conducted during the audit:

- Expenditures, forecasting, budgeting, and purchasing were reviewed in the financial systems section.
- District-wide staffing levels, collective bargaining agreements, salary levels, benefit costs, and special education expenditures were assessed in the human resources section.
- Custodial and maintenance staffing, facility-related expenditures, building capacity, policies and procedures, preventative maintenance, and the work order system were examined in the facilities section.
- Transportation staffing, expenditures, reporting, and policies and procedures were reviewed in the transportation section.
- Planning, management processes, financial status, and participation rates were evaluated in the food service section

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and efficiency improvements. The recommendations in the performance audit comprise options that WHCSD should consider in its continuing effort to stabilize its financial condition.

Scope and Methodology

The performance audit of WHCSD 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.

During the course of this performance audit, the AOS was aware of an ongoing federal investigation related to potential public corruption in Cuyahoga County, Ohio. The investigation has focused, in part, on a number of individuals, firms and companies and the nature of their business relationships with several government entities within the county. A number of District records were subpoenaed as part of the investigation. While the subject of the federal investigation is beyond the scope of this performance audit, any publicly reported items or business transactions related to the investigation were referred to the AOS Cleveland region responsible for the financial audit of the District.

Audit work was conducted between May 2008 and October 2008, and data was drawn from fiscal years 2006-07 and 2007-08. 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 WHCSD and other school districts. The District is late in its financial reporting obligations and the audits for the fiscal years included in the report have not been completed. The District's FY 2004-05 financial audit was released in May 2008, approximately three years behind schedule. Although the data used in this audit could not be compared to audited financial statements, and therefore was of indeterminate reliability, it was used in assessments to draw conclusions and or recommendations because it was the best information available at the time. Based on a review of the District's financial reports, AOS found that financial data was consistently reported, even if its reliability was questionable in some areas.

The human resource and transportation data provided by WHCSD to ODE and obtained for use in this audit report was found to have errors in some of the key data elements. AOS was able to use additional payroll data provided by the District to correct the human resource related information. The errors in the transportation data involved special education costs and mechanic staffing levels. In addition, the District could not demonstrate that it had excluded non-routine transportation costs as required. ODE conducted site visits to provide technical assistance to the District in FY 2006-07 and FY 2007-08 because of prior problems with the reported data. AOS used data from other sources to improve the data reliability of transportation staffing; however, the data on non-routine costs and special education costs remained questionable. Discussions on the limitations of the data, along with recommendations for corrective action regarding reported data, are included in the **human resources** and **transportation** sections.

The performance audit process involved significant information sharing with WHCSD, including preliminary 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 share proposed recommendations to improve or enhance operations. Throughout the audit process, input from WHCSD 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. In addition to the report, Auditors verbally communicated less significant issues separately to District administrators.

AOS developed a composite of ten districts which were used to provide benchmark comparisons for the areas assessed. The selected districts were Girard City (Trumbull County), Lowellville Local (Mahoning County), Columbiana Exempted Village (Columbiana County), McDonald Local (Trumbull County), Wheelersburg Local (Scioto County), Dover City (Tuscarawas County), Heath City (Licking County), Boardman Local (Mahoning County), Bath Local (Allen County), and Tiffin Local (Seneca County). These districts are classified as Type 4 districts by ODE, which are urban high population density districts that encompass small, or medium size towns and cities. They are characterized by low median incomes and very high poverty. Also, on a limited basis, comparisons were made to neighboring districts to provide additional performance or operational benchmarks. Districts used in these additional analyses are identified in the respective report sections. Furthermore, 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), and the United States Government Accountability Office (GAO), and other related leading practices. Information used as criteria (peer data, benchmarks, or leading practices) was not tested for reliability although the information was reviewed for reasonableness.

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

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide the District with options to enhance operational efficiency and improve its long-term financial stability. In order to obtain a full understanding of the assessed areas, the reader is encouraged to review the recommendations in their entirety. The following summarizes the key recommendations from the performance audit report.

In the area of financial systems, WHCSD should:

- Update and expand its strategic plan. Specifically the strategic plan should clearly state the persons or departments responsible and the time frames for implementation of goals and objectives. The strategic plan should also include the goals identified in the Comprehensive Continuous Improvement Plan. Once a comprehensive strategy is adopted and approved, WHCSD should assess all parts of the strategic plan on an annual basis and amend its priorities as appropriate to reflect changes in internal and external conditions.
- Implement a formal budgeting process that incorporates leading and recommended practices and reflects State law. The budgeting process should be formalized in writing and should be distributed to all key administrators. The District should link the budgeting process to its strategic plan. This approach will help shift the focus of budgetary decisions to support for the goals and objectives stated in the strategic plan.
- Improve internal controls over several key operational areas by expanding and, when necessary, updating existing policies and procedures. Furthermore, WHCSD should evaluate its policies and procedures on an annual basis to ensure that they are in line with management and District goals and that they appropriately address identified risks and weaknesses.
- Develop standardized financial reports, which are distributed to Board members prior to monthly meetings. These reports should include information deemed necessary by the Board members, and other analytical information/data which the Board can use to make informed decisions.
- Revise and fully document its methodology for major line-items in the five-year forecast. The District's forecast methodology should take into account historical trends and include the impact of any known changes in the economy, legislation, educational programs, and District operations. Most importantly, the District's methodology and assumptions should support and explain the basis for its projections.

In the area of human resources, WHCSD should:

- Eliminate 7.0 central administrative FTEs to bring its staffing level closer to the peer average. A reorganization and consolidation of administrative responsibilities would help the District implement a reduction in administrative positions and save \$725,000 annually. Also, conducting a job audit of central administrative positions would also assist the District in reorganizing its central office.

- Eliminate 7.0 office/clerical FTEs to bring staffing levels in line with the peer average. To help facilitate these reductions, the District should consider purchasing an automated substitute calling system and conduct a job audit of clerical positions. Additionally, if the District takes action to reduce central administrators, the office/clerical positions affiliated with each central administrator should be eliminated. Lastly, if the District closes a school building, it may be able to eliminate the clerical positions assigned to that building.
- Eliminate 17 teaching aide FTEs in order to bring staffing levels in line with the peer average for an annual savings of \$563,000. However, as teaching aids are used primarily to provide special education services, the District should also review its IEPs to ensure that the teaching aides are appropriate for the services required by the special needs population.
- Seek to reduce future salary and wage expenditures by attempting to negotiate some or all of the following options: limit future negotiated wage increases; freeze or lower step increases; freeze or lower longevity pay for classified bargaining unit staff; develop and implement new salary schedules for all staff; and discontinue providing an additional retirement benefit. Implementing all or some combination of these actions will help bring average salaries for certificated and classified employees more in line with the peer averages while remaining competitive with other area districts. If the District negotiated zero percent negotiated wage increases for three years (FY 2008-09 – FY 2010-11) and a 1 percent in FY 2011-12, it could avoid salary costs of approximately \$509,000, \$1.1 million, \$1.7 million, and \$2.1 million in FY 2008-09, FY 2009-10, FY 2010-11, and FY 2011-12, respectively. While the District may negotiate a different combination of changes to reduce future wage increases, it should attempt to obtain the same level of identified savings.

During the course of the audit, the District and its two bargaining units negotiated new contracts that include a zero percent wage increase and no step increases for FY 2008-09. District administrators also did not receive wage increase in FYs 2007-08 and 2008-09.

- Cease paying the employee's share of the retirement benefit for all administrative positions which would result in an annual savings of \$173,000.
- Negotiate a reduction in the number of medical plan options offered to employees and increase the employees' medical premium contribution to a minimum of 10 percent. This would reduce annual costs by \$669,400.

During the course of the audit, the District negotiated with its two bargaining units to reduce the number of health plans. Each unit agreed to have a choice of two

plans; however, the plans differ between the bargaining agreements. In total, the District will have reduced offerings from five different plans to three.

- Evaluate opportunities and strategies for reducing special education expenditures to a level comparable to the surrounding district average. These should include, at minimum, ongoing assessments of staffing needs and services, potential benefits of partnering with other districts for the provision of specialized instructional programs, and evaluation of the contracted services through the Education Service Center of Cuyahoga County. Reducing special education costs to a level similar to the peers would result in first year savings of \$241,000.

In the area of facilities, WHCSD should:

- Eliminate 4.0 custodial FTEs to bring its productivity in line with average national cleaning standards for square feet cleaned per custodian for an annual savings of \$164,000. In addition, the District should provide annual training to ensure custodians use the most effective and efficient cleaning methods.
- Reduce its maintenance and operations overtime use to the recommended benchmark of 2 percent of salary expenditures for annual savings of \$64,500. To accomplish this, the District should terminate the practice of conducting daily building checks. As a component of its next round of facility upgrades, it should invest in a remote building monitoring system. In the interim, it should rely on building custodians to complete the checks during regular work hours and seek to limit the number of checks during weekends and holidays. Finally, the Buildings and Grounds Department should charge back all overtime for functions dedicated to the recreation center and outside groups who may contract for use of the buildings.

During the audit, the District began checking buildings only on days with a temperature below 50 degrees and has reduced overtime expenses. In May 2009 the Board of Education reviewed a new rental fee schedule for FY 2009-10, which includes custodial fees.

- Develop and implement a capital improvement plan and building maintenance plans in accordance the requirements of the Expedited Local Partnership Program. Its capital and building plans should include the following:
 - A formal preventive maintenance (PM) program that addresses all routine, cyclical, and planned building maintenance functions.
 - A capital improvement plan that covers a five year period and is reviewed annually. It should include a project categorization and prioritization system that

- provides management with a breakdown between maintenance tasks and capital projects.
- Facilities audits should be conducted prior to completion of the PM and capital improvement plans and annually thereafter.

When it completes the master plan, the District should ensure it includes enrollment projections that are updated annually, its five-year capital improvement plan, a formal PM schedule, and annual building audits to ensure this information is maintained and up-to-date. The estimated annual savings from a reduction in purchased services through improved planning and management is \$120,000.

- Develop a greater focus on the management of its facility maintenance contracts. It should update the Supervisor of Building and Grounds' job description to include a contract management component. The District should also develop policies and procedures for the procurement and management of contracted services. All contracted services should be tracked and evaluated for cost effectiveness.
- Follow through on the remaining step in the first phase of its building and renovation plan and close Eastwood Elementary School for annual savings of \$314,000. Closing Eastwood as soon as possible would increase District-wide building utilization rates and result in a much-needed cost savings for the District.
- Develop and implement formal energy management practices for annual savings of \$100,000. The District should also consider assigning an employee to monitor District-wide and building-level energy consumption to identify potential issues of waste and/or inefficient equipment. To ensure that appropriate monitoring is taking place, the Superintendent, Business Manager, and building principals should be provided with copies of the building-level energy usage reports on a monthly basis.
- Implement a business plan to determine if the Recreation Center can become a self-supporting entity for annual savings to the General Fund of \$200,000. If the business plan indicates the Recreation Center cannot become self-supporting by FY 2010-11, the District should take steps to lease the Center or use it only for District activities. In addition, the District should ensure that all costs incurred by the Recreation Center are charged back to the Recreation Center line item in District financial reports.

In the area of transportation, WHCSD should:

- Update its transportation policies at least annually to reflect the current level of transportation service. Once updated, the policies, along with information about pick-up points and times, should be published on the District's web page.

Develop and implement a policy and procedure outlining the process for recouping the cost of non-routine transportation services.² Procedures for calculating the fees should be documented and distributed to District personnel. When requests for non-routine transportation are submitted, the calculated amounts should be included in the Treasurer's Office portion of the form. Finally, the calculations for charges should be reviewed for accuracy and indications that the fees have been paid should be documented on the form before it is archived.

During the audit, the District developed a *Procedure for Estimated Costs of Field Trips* and the Business Manager indicated that the calculation included in the procedure will be reviewed annually.

- Follow ODE's policies and procedures to ensure that State-required transportation reports contain accurate information that is collected and reviewed under a formal process. The Transportation Supervisor and the Treasurer should verify the transportation ridership and expenditure data before it is submitted to ODE for reimbursement. More specifically, the District should require the Treasurer's Office to complete a final review of the transportation data reports prior to submission to ODE.
- Update its procedures for declaring a student impractical to transport to ensure compliance with State law. It should develop a formal process which meets ORC requirements to ensure that appropriate standards are applied when making its determination and that it submits the list of students declared impractical to transport in a resolution for concurrence to the Educational Service Center of Cuyahoga County. The District should request technical assistance from ODE to ensure that its revised procedures meet all statutory and rule requirements.
- Increase its bus utilization to the national benchmark of 100 riders per bus (50 riders per tier) for annual savings of \$86,000. In order to increase utilization, the Transportation Supervisor should actively track bus capacity by completing quarterly rider counts and recalibrating routes accordingly. The Transportation Supervisor should evaluate all bus routes in the District and assign an official time for each route. To better organize routing information and achieve higher levels of efficiency, WHCSD might benefit from automating the routing process. An additional examination of routes to identify opportunities to use public transit would also benefit the District.

After completion of audit fieldwork, the District reported that it will reduce its fleet by one bus for FY 2009-10.

² Ohio Administrative Code § 3301-83-16 defines the non-routine use of school buses as "transportation of passengers for purposes other than regularly scheduled routes to and from schools. Traditionally, districts use school buses to transport students for educational field trips, as well as athletic teams, band groups, and other school groups to contests or functions in which the teams or groups participate.

- Increase the management and oversight of the Transportation Department, specifically by monitoring employee productivity and reducing overtime which could yield annual savings of \$52,900. In the area of overtime, it should use a substitute pool, monitor overtime usage, and schedule routes more efficiently. In addition, the District should attempt to renegotiate its classified contract to remove the provision that guarantees drivers five hours per day. Hours charged by drivers also could potentially be reduced by improved oversight of driver activities.
- WHCSD should include the Transportation Supervisor or designee in the individualized education plan development process to ensure that all available options for transporting special needs students are considered. The Transportation Department representative should ensure that any required specialized transportation service is feasible and can be provided effectively by the District's transportation system. This could result in annual savings of \$175,000.

In the area of food service, WHCSD should:

- Develop a food service strategic plan to help guide food service operations and ensure the enterprise fund is self-sufficient. Additionally, the District should incorporate strategies within the strategic plan to annually evaluate the effectiveness of service delivery in comparison to outside entities. Evaluating the program's cost and operational effectiveness to food service management companies will help ensure that the District's resources are being properly managed and will help determine if an operational change is necessary.

Prior to release of the audit report, the District submitted a draft Food Service Strategic Plan to ODE.

- Develop a standard operating procedures manual that includes all operational processes such as controlling cash, ordering food and supplies, preparing and submitting reimbursement data to ODE, and approving students for free and reduced price meals. Furthermore, the manual should incorporate any procedures necessary to address requirements and or policies found within the Board Policy Manual that pertain to food services or related financial management policies.

Prior to release of the audit report, the District developed standard operating procedures and included those in the Departmental Hazard Analysis Critical Control Point plan which was included in the draft Food Service Strategic Plan.

- Formally solicit input from students and other stakeholders to identify areas which, if improved, could increase participation rates. Increased participation rates will help

enhance revenue for the food service program and reduce the reliance on General Fund transfers.

During the audit the Food Service Supervisor began meeting with some stakeholders including high school students and the Student Council President in order to solicit feedback about the Food Service Operations from the stakeholders' point of view.

- Charge all food service-related expenses to the Food Service Fund, regardless of the fund's ability to maintain a positive fund balance. Allocating all food service expenses to the fund will provide a more accurate financial picture which will, in turn, improve decision-making related to revenue and program adjustments. By allocating utility expenditures to the Food Service Fund on a pro-rated basis, purchased services would increase by approximately \$45,000 in the Food Service Fund and decrease by the same amount in the General Fund.

Issues for Further Study

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

Transportation Services - Despite the recommendations in the **transportation** section which identify about \$400,000 in savings, WHCSD's transportation function would still cost \$51,849 per bus which is 34 percent higher than that of the peers (\$38,725). This indicates substantial room for additional improvement. One suggestion is for the District to examine shuttle runs and the number of students transported on each run. One bus primarily shuttles students back and forth from the District's college preparation program at Cuyahoga Community College. One option the District should explore is the provision of bus passes for students who are shuttled to and from this location. Providing bus passes to these students would allow the District to improve the efficiency of routing by enabling the consolidation of routes and/or the reduction in driver hours. A second option is to review alternatives for reducing bus fuel costs as the District's fuel cost per mile was 112 percent higher than the peer average. Although the District purchases fuel through a consortium, it should examine the following ODE recommended fuel saving practices: eliminate engine idling time, assign vehicles to stay with field trips and stay parked with the engine off, and eliminate all non-essential trips.

Summary of Financial Implications

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

Summary of Performance Audit Recommendations

| Recommendation | One-Time Implementation Cost | Annual Costs | Annual Cost Savings |
|--|------------------------------------|-----------------|---------------------------|
| Recommendations Not Subject to Negotiation | | | |
| R3.1 Eliminate 7.0 central administrator FTEs | | | \$725,000 |
| R3.2 Eliminate 7.0 office/clerical FTEs and implement a substitute calling system | \$900 | \$300 | \$351,000 |
| R3.3 Eliminate 17.0 teaching aide FTEs | | | \$563,000 |
| R3.7 Eliminate additional retirement benefit | | | \$173,000 |
| R3.8 Participate in a Bureau of Workers' Compensation Program | | | \$53,000 |
| R3.16 Reduce direct special education expenditures by 5 percent | | | \$241,000 |
| R4.1 Eliminate 4.0 custodial FTEs | | | \$164,000 |
| R4.2 Reduce overtime expenditures to 2 percent of salaries ¹ | | | \$64,500 |
| R4.3 Reduce purchased services expenditures through improved planning and management | | | \$120,000 |
| R4.4 Purchase a computerized maintenance management system | | \$1,400 | |
| R4.6 Close one elementary school ² | | | \$314,000 |
| R4.7 Develop energy management and conservation policies | | | \$100,000 |
| R4.8 Reduce Recreation Center Costs to the General Fund | | | \$200,000 |
| R5.5 Eliminate 2 buses and purchase routing software | \$10,000 | \$2,000 | \$86,000 |
| R5.6 Reduce maintenance costs through improved preventive maintenance and management and purchase vehicle maintenance management software | \$3,000 | \$900 | \$46,000 |
| R5.8 Reduce special needs transportation costs | | | \$175,000 |
| R6.4 Charge all related expenses to the Food Service Fund ³ | | | \$45,000 |
| <i>Subtotal Not Subject to Negotiation</i> | <i>\$13,900</i> | <i>\$4,600</i> | <i>\$3,334,500</i> |
| Recommendations Subject to Negotiation | | | |
| R3.6 Reduce future salary and wage expenditures | | | \$509,000 |
| R3.10 Negotiate fixed amount for insurance opt out incentive | | | \$1,500 |
| R3.11 Reduce the number of medical plans and increase the employee share of monthly premiums ⁴ | | | \$669,400 |
| R5.7 Improve personnel management practices and reduce overtime ⁴ | | | \$52,900 |
| <i>Subtotal Subject to Negotiation</i> | <i>\$0</i> | <i>\$0</i> | <i>\$1,232,800</i> |
| Total General Fund Impact of Performance Audit Recommendations | \$13,900 | \$4,600 | \$4,567,300 |

Source: AOS recommendations

¹ Savings are based on WHCSD's FY 2007-08 staffing levels. If the District implements staffing reductions in **R4.1**, the overtime savings would be reduced.

² Amount reflects the annual savings estimated for 2009-2010.

³ Reallocating utility expenditures would increase expenditures in the Food Service Fund and decrease, by the same amount, expenditures in the General Fund.

⁴ If the District is not successful in making changes to the number of health plans but is successful in increasing the employee contribution percent, the savings would be \$174,400.

⁵ While one of the recommended activities to reduce personnel costs involves negotiating a change in terms of bargaining agreement, the other recommended steps are not subject to negotiation.

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Financial Systems

Background

This section focuses on financial systems in the Warrensville Heights City School District (WHCSD or the District). The District's five-year forecast was analyzed to ensure that projections were reasonably indicative of future operational and financial conditions. The current and future financial condition of WHCSD along with its operations were also evaluated against leading practices, industry benchmarks, operational standards, and selected peer districts¹ in order to develop recommendations to improve the District's financial management, efficiency, and business practices. Leading practices and industry standards were drawn from sources including the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), the National State Auditors Association (NSAA), and the United States Government Accountability Office (GAO).

Treasurer's Office Operations

The Treasurer's Office consists of six staff members: the Treasurer, who reports to the Board of Education (Board); the Assistant Treasurer, who reports to the Treasurer; and three payroll/finance staff and one secretary, who report to the Assistant Treasurer. The Treasurer's Office is responsible for processing payroll, administering accounts payable and accounts receivable, and reporting District finances to the Board and general public.

WHCSD has experienced considerable turnover in executive management over the past six years, with frequent changes in Board members during this time frame. The District has three new Board Members who took office in 2008. Moreover, there have been five treasurers since 2001. The current Treasurer has been with District since fiscal year (FY) 2005-06 and also served as Treasurer previously, from FY 1990-91 to FY 2000-01. The high level of turnover has reduced continuity and accountability in the financial management and oversight of the District. As a result, internal controls, financial reporting, and oversight are inadequate, leading to unreliable financial information (see **R2.3**). Furthermore, due to the lack of management controls, the District is delinquent in its financial reporting obligations. As a result, the District's FY 2004-05 financial audit was released in May 2008, approximately three years behind schedule.

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

Financial Condition

Ohio Revised Code (ORC) § 3316.031 states that the State Superintendent of Schools may declare a district in fiscal caution, after consulting with the local board of education, if it is determined through the forecast that conditions exist that could result in a fiscal watch or fiscal emergency situation.² Further, fiscal caution may be declared whenever ODE discovers any other fiscal practices or conditions that could lead to a declaration of fiscal watch or emergency through the examination of a district's five-year forecast required under ORC § 5705.301(B). ODE placed WHCSD in fiscal caution on May 5, 2008 in response to the District's potential deficit of approximately \$8.5 million by FY 2011-12. As required under statute, WHCSD submitted a financial recovery plan to ODE on July 5, 2008; however, ODE did not accept the plan and requested modifications. The District submitted a revised recovery plan that outlined planned reductions in staffing, overtime, substitute costs, purchased services, and supplies and materials; however, ODE also requested additional modifications to this plan. On December 1, 2008, ODE notified WHCSD that its revised plan had been approved; however, ODE asked that the plan and October five-year forecast be updated to reflect the additional staff hired by the Board. The amended documents were due to ODE by January 5, 2009.

Table 2-1 represents WHCSD's May 31, 2008 five-year forecast.

² In addition, the State Superintendent must declare fiscal caution if the Auditor of State (AOS) certifies a deficit that is greater than 2 percent but less than 8 percent of prior year General Fund revenue and elects not to place the district in fiscal watch.

Table 2-1: WHCSD Five-Year Forecast (in 000's)

| | Actual | | | Forecasted | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | FY 2004-05 | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Revenues: | | | | | | | | |
| General Property Tax | \$13,244 | \$16,842 | \$16,245 | \$17,342 | \$16,493 | \$15,850 | \$14,926 | \$13,926 |
| Tangible Personal Tax | \$3,394 | \$3,471 | \$2,632 | \$2,611 | \$1,796 | \$1,102 | \$1,000 | \$0 |
| Unrestricted Grants-in-Aid | \$9,889 | \$10,527 | \$10,344 | \$10,256 | \$10,359 | \$10,462 | \$10,567 | \$10,673 |
| Restricted Grants-in-Aid | \$228 | \$1,664 | \$1,581 | \$1,389 | \$1,396 | \$1,403 | \$1,410 | \$1,417 |
| Property Tax Allocation | \$1,690 | \$1,634 | \$2,048 | \$2,419 | \$3,091 | \$3,842 | \$3,859 | \$3,298 |
| All Other Revenues | \$552 | \$469 | \$756 | \$764 | \$772 | \$779 | \$787 | \$795 |
| Total Revenues | \$28,997 | \$34,607 | \$33,606 | \$34,781 | \$33,906 | \$33,439 | \$32,549 | \$30,108 |
| Proceeds from Sale of Notes | \$275 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Operating Transfers-In | \$769 | \$591 | \$953 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Advances-In | \$0 | \$289 | \$2 | \$2 | \$2 | \$2 | \$2 | \$2 |
| All Other Financial Sources | \$49 | \$16 | \$1 | \$12 | \$12 | \$12 | \$12 | \$12 |
| Total Other Financing Sources | \$1,092 | \$896 | \$956 | \$14 | \$14 | \$14 | \$14 | \$14 |
| Total Revenues and Other Financing Sources | \$30,090 | \$35,503 | \$34,562 | \$34,796 | \$33,921 | \$33,453 | \$32,563 | \$30,123 |
| Expenditures: | | | | | | | | |
| Personnel Services | \$15,342 | \$18,729 | \$17,908 | \$18,648 | \$18,710 | \$18,996 | \$19,290 | \$19,592 |
| Employees' Retirement /Insurance Benefits | \$5,771 | \$6,412 | \$6,281 | \$6,607 | \$6,736 | \$6,839 | \$6,944 | \$7,053 |
| Purchased Services | \$5,079 | \$5,794 | \$6,210 | \$6,386 | \$6,545 | \$6,709 | \$6,876 | \$7,048 |
| Supplies and Materials | \$814 | \$1,198 | \$946 | \$925 | \$1,018 | \$1,120 | \$1,232 | \$1,355 |
| Capital Outlay | \$29 | \$391 | \$53 | \$105 | \$97 | \$89 | \$82 | \$75 |
| Debt Service: | | | | | | | | |
| Interest and Fiscal Charges | \$0 | \$0 | \$11 | \$11 | \$286 | \$0 | \$0 | \$0 |
| Other Objects | \$564 | \$667 | \$657 | \$660 | \$660 | \$660 | \$660 | \$660 |
| Total Expenditures | \$27,598 | \$33,191 | \$32,065 | \$33,342 | \$34,051 | \$34,412 | \$35,085 | \$35,783 |
| Other Financing Uses: | | | | | | | | |
| Operational Transfers-Out | \$1,153 | \$967 | \$1,277 | \$900 | \$500 | \$100 | \$100 | \$100 |
| Advances-Out | \$390 | \$205 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Other Financing Uses | \$1,543 | \$1,172 | \$1,277 | \$900 | \$500 | \$100 | \$100 | \$100 |
| Total Expenditures and Other Financing Uses | \$29,141 | \$34,363 | \$33,342 | \$34,242 | \$34,551 | \$34,512 | \$35,185 | \$35,883 |
| Excess Rev and Other Financing Sources | \$949 | \$1,140 | \$1,220 | \$553 | (\$631) | (\$1,059) | (\$2,621) | (\$5,760) |
| Beginning Cash Balance | \$126 | \$1,075 | \$2,215 | \$3,435 | \$3,988 | \$3,357 | \$2,298 | (\$323) |
| Ending Cash Balance | \$1,075 | \$2,215 | \$3,435 | \$3,988 | \$3,357 | \$2,298 | (\$323) | (\$6,083) |
| Outstanding Encumbrances | \$808 | \$1,519 | \$1,864 | \$1,930 | \$2,000 | \$2,000 | \$2,000 | \$2,000 |
| Textbook and Instructional Materials | \$0 | \$0 | \$424 | \$424 | \$424 | \$424 | \$424 | \$424 |
| Total Reservations | \$0 | \$0 | \$424 | \$424 | \$424 | \$424 | \$424 | \$424 |
| Fund Balance June 30 for Certification of Appropriations | \$268 | \$697 | \$1,147 | \$1,634 | \$933 | (\$126) | (\$2,747) | (\$8,507) |
| Fund Balance June 30 | \$268 | \$697 | \$1,147 | \$1,634 | \$933 | (\$126) | (\$2,747) | (\$8,507) |
| Income Tax – New | \$0 | \$0 | \$0 | \$0 | \$0 | \$925 | \$1,850 | \$1,850 |
| Cumulative Bal. New Levies | \$0 | \$0 | \$0 | \$0 | \$0 | \$925 | \$2,775 | \$4,625 |
| Unreserved Fund Balance June 30 | \$268 | \$697 | \$1,147 | \$1,634 | \$933 | \$799 | \$28 | (\$3,882) |

Source: WHCSD May 2008 five-year forecast as submitted to ODE

Note: Numbers may vary due to rounding.

By its nature, forecasting requires estimates of future events. Therefore, differences between projected and actual revenues and expenditures are common because circumstances and conditions frequently do not occur as expected. At the time the forecast was submitted (**Table 2-1**), the District projected a positive unreserved fund balance of \$1.6 million in FY 2007-08, which was expected to diminish to \$28,000 by FY 2010-11. However, by FY 2011-12 the District projected a \$3.9 million deficit.

The performance audit includes a review of the assumptions that have a significant impact on the forecast, such as unrestricted and restricted grants-in-aid, other revenue, personnel services, employees' retirement and insurance benefits (ERIB), purchased services, and supplies and materials. AOS analyzed the assumptions and methodologies and concluded that the District's forecast is overly optimistic and does not accurately reflect the severity of its financial condition. This conclusion is based upon several considerations, such as inadequate explanation and scarce documentation of forecast assumptions and methodology; untimely forecast revisions; insufficiently updated revenue estimates; and forecasting practices that did not meet leading practices (see **R2.8**). AOS has recommended changes where appropriate (see **R2.9**), and concluded that, without changes to operations, the District may have a deficit of \$488,000 beginning in FY 2009-10 that could grow to about \$21.4 million by FY 2011-12.³

During the audit, WHCSD submitted its October 2008 forecast to ODE. This forecast did not contain substantial changes and did not resolve areas identified as deficient during the forecast analysis. As a result, AOS restated several line items and these changes, along with the impact of the performance audit recommendations, are shown in **Table 2-7**.

Financial Operations – Expenditures & Revenues

The allocation of resources between the various functions of a school district is one of the most important aspects of the budgeting process. Given the limited resources available, operational expenditures by function should continually be evaluated and prioritized. **Table 2-2** compares WHCSD's FY 2006-07 expenditures on a per pupil basis to the peer average. Total expenditures are based on ODE's Expenditure Flow Model (EFM).⁴

³ These ending fund balances do not include the renewal of the District's emergency levy. When the emergency levy is included, the District's ending fund balance in FY 2011-12 shows a deficit of \$16.8 million.

⁴ The purpose of the EFM, as described by ODE, is to categorize and report expenses related to the education of kindergarten through twelfth grade students and does not include all the funds accounted for by a school district. Furthermore, the funds identified within the EFM differ slightly from the funds found within the five-year forecast (**Table 2-1**).

Table 2-2: FY 2006-07 Expenditure per Pupil Comparison

| | WHCSD | | Peer Average | | Difference Per Pupil | Percent Difference |
|---------------------------|---------------------|-----------------|---------------------|----------------|----------------------|--------------------|
| | Total \$ | \$ Per Pupil | Total \$ | \$ Per Pupil | | |
| Administration | \$5,263,649 | \$2,232 | \$1,740,839 | \$907 | \$1,326 | 146.2% |
| Operations Support | \$7,369,634 | \$3,125 | \$2,915,252 | \$1,518 | \$1,607 | 105.8% |
| Staff Support | \$753,404 | \$320 | \$180,633 | \$94 | \$225 | 239.6% |
| Pupil Support | \$2,358,045 | \$1,000 | \$1,719,465 | \$896 | \$104 | 11.7% |
| Instruction | \$16,901,251 | \$7,168 | \$8,920,579 | \$4,646 | \$2,521 | 54.3% |
| Total | \$32,645,983 | \$13,845 | \$15,476,769 | \$7,817 | \$6,028 | 77.1% |

Source: ODE Expenditure Flow Model and enrollment information for WHCSD and the peers.

As **Table 2-2** shows, WHCSD spent 77.1 percent more per pupil than the peer average, with the majority of the variance in support service and other non-instructional areas. The following is a brief explanation of the variances in spending levels between the District and the peers:

- **Administration:** In FY 2006-07, WHCSD spent nearly 150 percent more than the peer average in this functional area. These costs were incurred for the Board of Education, Superintendent's Office, fiscal services, Business Manager, support services, and building principals (see **human resources**). These expenditures are not directly related to the classroom instruction of students; instead, they encompass expenses related to planning, research, information services, staff services, and data processing.
- **Operations Support:** WHCSD operations support cost was 105.8 percent more per pupil than the peer average. These expenditures comprise salaries and benefits for employees responsible for the management of plant maintenance, transportation, and food service activities (see **facilities** and **transportation**). Operations support also includes facility related operations (supplies, materials and purchased services) at the building and central office levels, as well as similar expenditures for transportation services. It also includes purchases for the largest enterprise fund, the food service operation (see **food service**).
- **Staff Support:** The District spent \$320 per pupil for staff support, which is 239.6 percent more than the peer average (see **human resources**). This cost category includes expenditures by the Central Office for activities such as in-service training for District staff, instructional improvement services, and meeting expenses for all staff. Furthermore, any costs associated with staff development, training, retraining, and continuous education courses are also included in this functional area.
- **Pupil Support:** In FY 2006-07, the District spent 11.7 percent more than the peer average (see **human resources**) for pupil support. This category includes staff that provides support services to students outside the classroom and beyond academic

instruction. Such costs include the management of support services, guidance services, health services, psychological services, speech pathology and audiology services, attendants, and any social work activities, as well as instructional media services for students.

- **Instruction:** In FY 2006-07, WHCSD reported spending \$7,168 per pupil (almost \$17 million in total) on instruction compared to the peer average of \$4,646 per pupil. This function includes costs for teachers, teacher aides, and paraprofessionals as well as instructional materials such as computers, books, and other supplies that are directly related to the education of students. Despite spending 54.3 percent more than its peers on instruction, ODE designated the District's academic performance as *academic watch* in FY 2006-07.

As shown in **Table 2-2**, the District continues to report total expenditures nearly twice the peer average on a per pupil basis. Implementation of the recommendations in the **human resources, facilities, transportation, and food service** sections will help bring the District's expenditures per pupil more in line with the peer average.

Table 2-3 compares District revenues by object code to the peer average for FY 2006-07.

Table 2-3: Revenue Comparison by Object: FY 2006-07

| Revenue | WHCSD | | Peer Average | | Dollar Difference Per pupil | Percent Difference Per pupil |
|--------------------------------|---------------------|-----------------|---------------------|----------------|-----------------------------|------------------------------|
| | Total \$ | \$ Per pupil | Total \$ | \$ Per pupil | | |
| General Property (Real Estate) | \$16,244,626 | \$6,889 | \$6,463,449 | \$2,722 | \$4,168 | 153.1% |
| Tangible Personal Property Tax | \$2,631,515 | \$1,116 | \$1,561,006 | \$729 | \$387 | 53.1% |
| Unrestricted Grants-in-Aid | \$10,343,578 | \$4,387 | \$5,230,510 | \$3,156 | \$1,230 | 39.0% |
| Restricted Grants-in-Aid | \$1,581,038 | \$670 | \$346,602 | \$296 | \$375 | 126.8% |
| Property Tax Allocation | \$2,048,491 | \$869 | \$1,096,020 | \$457 | \$412 | 90.1% |
| All Other Operating Revenue | \$756,344 | \$321 | \$887,663 | \$515 | (\$194) | (37.7%) |
| Total | \$33,605,592 | \$14,252 | \$15,585,250 | \$7,875 | \$6,377 | 81.0% |

Source: Five-year forecasts for WHCSD and the peers as submitted to ODE.

Table 2-3 illustrates that WHCSD receives per pupil funding above the peer average in all areas except *all other operating revenue*. In total, it receives 81 percent more funding per pupil than the peer average. The majority of the difference is in general property and unrestricted/restricted grant-in-aid. WHCSD's higher assessed valuation, coupled with its effective millage rate, explain the difference in general property tax collections. In FY 2006-07, WHCSD had an assessed valuation that was 15.7 percent higher than the peer average. Furthermore, in FY 2006-

07, the District had a voted millage rate of 90.2, with an effective millage rate of 49.8 mills for class 1 properties and 70.0 mills for class 2 properties.⁵

The District's total grants-in-aid are substantially higher when compared to the peer average. WHCSD received 39 percent more unrestricted grants-in-aid, such as special education weighted amounts, parity aid, gifted aid, and transportation reimbursements. Restricted aid, which was nearly 127 percent higher than the peers, is comprised of poverty based assistance and career/tech adult education.

Because of the large disparities between the District and the peer average revenues (**Table 2-3**) and expenditures (**Table 2-2**), reductions in staffing, discretionary spending, and non-instructional operating areas will be necessary to bring spending more in line with the peer average. Furthermore, any cost savings and reductions will help WHCSD avoid the projected deficit and improve its financial condition.

⁵ Not all of the revenue related to the effective mills appears in the five-year forecast.

Audit Objectives for the Financial Systems Section

The following questions were used to evaluate the financial systems within the District:

- Does the District's financial data appear to be valid and reliable?
- What has been the District's recent financial history?
- How do the District's expenditures per student educated compare with peer districts?
- Does the District have comprehensive financial policies and procedures that meet recommended practices?
- Does the District's five-year forecast reasonably and logically project the District's future financial situation?
- How do the recommendations in the performance audit and forecast adjustments impact the financial condition of the District?
- Does the District report appropriate financial information to management and the community?
- Has the District developed a strategic plan which links educational and operational plans and meets leading practices?
- Has the District established inventory controls over consumable supplies and materials that meet leading practices?
- Does the District have a comprehensive purchasing policy and corresponding procedures that meet leading practice criteria?
- Does the District effectively manage payroll operations?

Recommendations

Planning and Budgeting

R2.1 WHCSD should update and expand its strategic plan. The strategic plan should clearly state the persons or departments responsible for specific actions and the time frames for the implementation of District goals and objectives. The Board should identify and formally adopt a limited number of District priorities to guide its strategies and its major financial, capital, and program decisions. The strategic plan should also include the goals identified in the Comprehensive Continuous Improvement Plan (CCIP), as well as goals related to business-side operations. Incorporating a staffing plan (R3.4), a facilities master plan (R4.3), and a food service strategic plan (R6.1) will help link operational activities to academic goals. Once a comprehensive strategy is adopted and approved, WHCSD should assess all parts of the strategic plan on an annual basis and when appropriate, amend its priorities to reflect changes in internal and external conditions.

The District has developed a three-year (FY 2006-07 to FY 2009-10) strategic plan. The plan includes five strategic goals aimed at improving student achievement, student services, financial accountability, internal and external community, and safe and orderly schools. Although the plan includes objectives and a strategy for achieving each goal, the goals are ambiguous and do not encompass all operational areas, nor does the plan designate the staff responsible for each objective, the timeframes for completion, or any performance measurements. Further, it does not integrate the District's human resources, facilities, and food service functions.

Without a comprehensive strategic plan, the District may have difficulty evaluating the relationship between its spending decisions and program outcomes and academic performance (see also **R2.2**). Therefore, the District should consider incorporating additional key elements suggested by leading practices to better ensure the success of its strategic plan.

According to *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005),⁶ entities should develop a multi-year strategic plan that provides a long-term perspective for services delivered and budgeting, thus establishing logical links between authorized spending and annual goals based on identified needs, projected enrollment, and revenues. Accordingly, GFOA recommends that entities take the following actions:

- Prepare a mission statement;

⁶ A detailed list of GFOA recommended practices by category can be found at: <http://www.gfoa.org>

- Assess environmental factors and critical issues;
- Develop an action plan;
- Incorporate timeframes for implementation of objectives;
- Obtain approval of the plan;
- Develop performance measures and benchmarks; and
- Reassess the strategic plan annually.

A comprehensive strategic plan could help improve communication between the District, the community, and city officials. It could also improve the focus and direction of the Board and the alignment of other planning processes to the District-wide strategic plan. Finally, a strategic plan would help establish uniformity among staff as they work toward the accomplishment of prioritized goals and align the budget process with strategic goals and objectives.

WHCSD should ensure that its strategic plan is linked to each school's improvement plan, as well as State and District educational and operational goals. The goals, objectives, and strategies in the strategic plan should be listed in their order of importance. Each department should provide input regarding their particular area of operations. Finally, WHCSD should ensure that the staffing plan (see **R3.4 in human resources**), the comprehensive facilities master plan (see **R4.3 in facilities**), and the food service strategic plan (see **R6.1 in food service**) are linked to the comprehensive strategic plan. By enhancing its strategic plan, the District will be able to exercise a greater degree of control over the allocation of resources and develop a more comprehensive approach to balancing finances with educational and operational objectives.

R2.2 WHCSD should implement a formal budgeting process that incorporates leading and recommended practices and reflects State law. The budgeting process should be formalized in writing and should be distributed to all key administrators. The District should link the budgeting process to its strategic plan (see R2.1). This approach will help shift the focus of budgetary decisions to support for the goals and objectives stated in the strategic plan. Finally, training should be provided to personnel involved in the budgeting process to ensure they are familiar with the timeframes and requirements of the process.

WHCSD does not have a formally documented budgeting process that is linked to the strategic plan. The District does not hold meetings specifically designed to discuss the budget and there are no forums that would allow an opportunity for input from various stakeholders. Furthermore, WHCSD does not publish a budget summary on its website (see **R2.5**) or prepare other similar documentation that would help Board members, District personnel, and citizens easily understand the budget, key assumptions, and other significant issues. While the District has a Finance Committee, it does not provide guidance to the Treasurer on budgetary or other financial issues. Finally, there are no

monitoring tools or budgetary performance measures used to hold key personnel accountable for the use of public funds.

According to *Best Practices in Public Budgeting* (GFOA, 2000),⁷ a government should choose the type of budget, the manner in which it will be presented, and time period covered that best fit its needs. Budgetary practices should be an integral part of the District's financial management practices. The GFOA recommends the following steps be included in a formal budgeting process:

- Develop the type, presentation, and time period of the budget;
- Develop a budget calendar;
- Develop budget guidelines and instructions;
- Develop mechanism for coordinating budget preparation and review;
- Develop procedures to facilitate budget review, discuss, modification, and adoption;
- Identify opportunities for stakeholder input;
- Prepare and present a recommended budget;
- Prepare a budget summary;
- Adopt the budget;
- Monitor, measure, and evaluate budgetary performance; and
- Adjust the budget as needed.

The manner in which the budget is developed and presented can have a significant practical impact on a government's approach to planning, control, and overall management of its programs, services, and finances, and on the quality of information provided to stakeholders. Using the GFOA recommended practices to develop its annual budget would help the District better identify how it plans to use its resources and communicate these decisions to District stakeholders. A more rigorous budget process, which includes key stakeholders and administrators, would also help WHCSD exercise a greater degree of control over its resources, an important step considering its current financial position.

⁷ For detailed descriptions and examples of GFOA recommended policies, see <http://www.gfoa.org/services/nacslb/>

Internal Controls

R2.3 WHCSD should improve its internal controls over several key operational areas by expanding or, where appropriate, updating existing policies and procedures. Furthermore, WHCSD should evaluate its policies and procedures on an annual basis to ensure that they are in line with management and operational goals and that they appropriately address anticipated risks and previously identified weaknesses. Proper internal control procedures will help to ensure that District resources are protected and personnel adhere to formalized processes.

Although WHCSD has developed policies and procedures in some operational areas, the policies and procedures do not contain several recommended elements. Furthermore, the District does not consistently adhere to its existing policies and procedures. For example, the District has a competitive bidding policy that outlines the bidding process for purchases exceeding \$25,000, which is in compliance with ORC § 3313.46. However, the Treasurer and Assistant Treasurer acknowledged the bidding process is not closely followed and the Treasurer's Office was unable to provide evidence to show that bidding occurred for purchases over \$25,000. Furthermore, the District does not have policies for price quotations or contracted services. Failure to enforce its policies and procedures limits the Board and administration's ability to hold administrators and staff accountable for specific types of transactions, and ensure effective internal controls over District funds. Internal controls help achieve competitive pricing, reduce the potential of theft, fraud, and abuse, and help to ensure efficient operations.

In the area of financial management, WHCSD could benefit from the implementation of the following policies and procedures:

- **A comprehensive set of financial policies and procedures** which are tied to organizational goals and which ensure accountability over District resources (*Leading Practices in Public Budgeting* (GFOA, 2000)). These policies and procedures should include:
 - **A purchasing policies and procedures manual** describing its purchasing policies and procedures, as well as timelines in the purchasing process (*The Financial Accountability System Resource Guide* (Texas Education Agency, 2004));
 - **A competitive bidding process** that establishes a minimum dollar threshold for price quotations to ensure the most qualified vendor is selected at the best price (*Contracting for Services* (NSAA, 2003));

- **A payroll policies and procedures handbook** encompassing the full range of operations in the payroll function (*Maintaining Effective Controls over Employees Time and Attendance Reporting* (GAO, 2003)); and
- **A financial forecasting procedure** that outlines a formal system used to prepare the forecast. The formal system should consist 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 (*Guide to prospective financial information* (American Institute of Certified Public Accountants, 2006)).
- **A District-wide ethics policy** that lists a number of general standards for ethical conduct as well as ethics requirements and penalties associated with ORC §102 and §2921.

By augmenting its policies and procedures to include the above-mentioned recommended elements, WHCSD would ensure a greater degree of control over scarce resources. Many of these recommended policies and procedures can help to increase efficiency or strengthen internal controls which can lead to reduced expenditures or more effective resource allocation. Furthermore, implementing the recommended policies will mitigate some of the risk associated with relying solely on the discretion of District administrators and staff. Finally, established procedures ensure that WHCSD employees perform tasks in a manner consistent with the expectations of District administrators and the Board of Education (see also **R4.5**, **R5.1**, **R5.2**, **R5.4**, and **R6.2**).

Financial Reporting

R2.4 WHCSD should develop standardized financial reports and distribute them to the Board prior to its monthly meetings. These reports should include information and analyses deemed necessary by District officials to help the Board better understand the District's financial situation and to make informed decisions. The reports should be presented in a user-friendly format with explanatory comments and any information needed to explain the District's financial situation.

The Treasurer provides the Board with reports at each Board meeting, such as a quarterly spending report (SM-2), annual spending plan (SM-1), and a financial summary report by fund (FINSUM). However, the format of these reports does not clearly illustrate the District's financial situation or explain, in clear terms, its financial position on a month-to-month basis. As a result, the reports do not help the Board and other administrators in making informed decisions regarding WHCSD's financial condition. In part because of the limited availability of financial information and inadequate budgeting and forecasting

procedures, the Board and District administrators have not been fully cognizant of the worsening financial condition and consequently, have not acted expeditiously to remedy the potential financial shortfall.

The Lebanon City School District (Warren County) provides its Board members with a monthly comprehensive report which includes the following:

- Treasurer's Update – This includes a summary of the major transactions and an update of the day-to-day operations of the Treasurer's Officer which occurred during the month.
- Financial Notes – This report highlights larger receipts which were received and a list of large expenditures.
- General Fund Cash Flow Analysis – This report details the year-to-date actual revenue and expenditures, the projected totals, and the difference.
- Bank Reconciliation Summary – This report shows the fund balance of each fund, bank balance, investments, and all outstanding checks.
- Monthly Warrant/Refund/Payroll Check – This report shows all investment checks, transfer checks, distribution checks, payroll checks, and missing checks.

Although the Treasurer provides some financial reports to the Board prior to its meetings, a more comprehensive and user-friendly report format would better educate Board members of the District's financial condition. This is particularly important considering the potential severity of the District's financial situation. Using this approach would also help the District provide financial information to other stakeholders in the District, such as residents, staff, faculty, and other administrators, to enhance their understanding of the District's finances (see **R2.5**).

R2.5 WHCSD should better use its web site as a means to inform and educate its residents about District finances. It should provide financial and budgeting information, as well as statistical information similar to that found in reports like a Popular Annual Financial Report and other easy to use financial reporting models.

The District's web site contains general information on administrative functions and student programs. However, the depth of the information is limited and it does not contain information pertaining to the financial operations of the District.

To improve its web site, WHCSD should consider providing financial information similar to Wayne Trace Local School (Paulding County), Westerville City School District

(Franklin County), and Olentangy Local School District (Delaware County). These districts provide a range of financial information on their web sites, including:

- **Levy Information** – Includes levy facts, reappraised home values and school taxes, property tax calendar, income tax calculator, and a glossary of school finance terms.
- **Expenditures by Object/Function** – Illustrates salary, benefit, purchased services, capital outlay, maintenance, transportation, and extracurricular activity expenditures.
- **Appropriations and Forecasts** – Provides the current five-year forecast, notes for understanding the five-year forecast, appropriations, tax budget, and historical year-end analysis.
- **Taxes/Millage/Valuations** – Includes a tax calculator, county area effective tax rates (historical information), tax rate history, and questions and answers about taxes and millage.
- **Annual Reports** – Provides historical information and data that is included in a comprehensive annual financial report.
- **Miscellaneous** – Shows audit findings, State financial designations, ODE Local District Report Cards, reports on enrollment, and finance and audit committee information.

A Popular Annual Financial Report shows financial data in an easy to read format, using charts and graphs. Its main purpose is to provide financial data to stakeholders in a graphical format. Popular annual financial reports also often communicate performance statistics and relate spending, performance and goal achievement.

By providing key financial information to District residents online, WHCSD could better inform its stakeholders about financial conditions. Although staff time is required to develop and publish this information on the District's web site, the information would be readily available to the public at little additional cost. In addition, publishing financial information electronically would enable the users to more easily find, extract, and analyze data contained in lengthy documents.

Financial Operations

R2.6 WHCSD should approach bargaining unit representatives and request a memorandum of understanding requiring mandatory direct deposit and electronic pay stubs for all employees and long-term substitute teachers, regardless of hire date. By expanding the use of these practices, the District could reduce the supply and material costs associated with producing paper pay checks and stubs while improving the efficiency of operations in the Treasurer's Office. In addition, employees would benefit from ease of access to historical pay stub information.

WHCSD does not require mandatory direct deposit for certificated and classified employees and long-term substitute teachers. However, 65 percent of District employees take advantage of direct deposit and or electronic pay stubs. For one pay period, WHCSD processed a total of 401 checks, of which 102 were issued in paper format. Based on the total number of payroll transactions, the District issues approximately 2,600 paper checks annually.

According to the National Automated Clearing House Association/Electronic Payment Association (2007), direct deposit can be beneficial to both the organization and the employees. Furthermore, the Electronic Payment Association states that employers and employees can financially benefit from the use of electronic pay stubs while simultaneously increasing efficiencies within a payroll department. The employer benefits because electronic pay stubs eliminate the need to print, mail, and distribute pay stubs or reproduce lost pay stubs. At the same time, the employee benefits because he or she can easily access pay information from any computer with a browser and internet connection. Also, a more extensive record of the employee's pay history is available, beginning with the first electronic pay stub. Electronic pay stubs also make it easy for employees to provide pay stub information to a third party, such as accountants, mortgage lenders, and other agencies requiring pay verification.

Computer access for bus drivers and custodians may create a logistical problem; however, WHCSD could issue email addresses to these employees and provide them with access to District computers. The District could establish a centralized computer station during the summer months for employees to access their electronic stub or send the pay stubs to private email accounts.

Although the savings associated with implementing mandatory direct deposit and electronic pay stubs is difficult to quantify, the District could save money by eliminating the cost of paper, envelopes, stamps, and time associated with processing the paper stubs. Also, the time spent printing paper checks and stuffing envelopes could be allocated to other activities. Finally, WHCSD could increase its internal controls over payroll and check processing by eliminating most paper checks.

R2.7 The Treasurer’s Office should cross-train its bookkeeping staff in accordance with leading practices. The Office should analyze the potential benefits for the employees and the District, track employee training, and monitor feedback from management and employees during the implementation process.

There are three bookkeeping positions in the Treasurer’s Office. Two of the bookkeeping positions are responsible for payroll and benefits, along with entering staff data into the Education Management Information System (EMIS). One bookkeeper processes the certificated staff and the other processes the classified staff. Both enter data into the District’s payroll system and review each other’s work to check for errors. The third bookkeeper is responsible for accounts payable. Although the Assistant Treasurer is able to perform the job duties assigned to the three bookkeepers, the bookkeepers have not been formally cross-trained. The District could benefit from the development of a formal cross-training program that is consistent with leading practices so that it ensures adequate coverage for these job functions in the event of illness or an extended absence. .

Several organizations have developed cross-training programs for major functional areas. Cross-training has enabled these organizations to be more flexible with employees’ schedules, while decreasing the risk of functional down-time in critical operational areas. According to *Cross Training – Value in Today’s Environment* (Society for Human Resource Management, 2001), cross-training can be beneficial both to the organization and the employees by increasing employees’ knowledge and ability to perform different tasks. Cross-training also adds variety to employees’ workday, adds new challenges to their jobs, and enhances future career opportunities within the organization. Furthermore, cross-training can help employees better understand interrelationships between jobs, in addition to enhancing their overall perception of operations.

By implementing a cross-training program, tracking performance, and monitoring feedback, organizations can be better prepared in the event of short or long-term absences and ensure that job functions are performed with minimal impact on operations. The Treasurer’s Office could implement this recommendation at no additional cost to the District.

Forecasting

R2.8 WHCSD should revise and fully document its methodology for projecting the major line-items in its five-year forecast. The District's forecasting methodology should take into account historical trends and include the impact of any known changes in the economy, legislation, educational programs, and District operations. Most importantly, the District's methodology and assumptions should support and explain the basis for its projections. Sufficiently detailed supporting documentation would help WHCSD more easily explain forecast adjustments when circumstances or expectations change; prepare more accurate and timely projections; and better plan its educational programs and operations to meet specific District goals. Finally, incorporating various scenarios into the forecasting process would help WHCSD's Board and administrators better prepare for alternative outcomes.

Major line items in WHCSD's May 2008 five-year financial forecast were examined, including State funding, personal services, employee retirement and insurance benefits, purchased services, and supplies and materials. The projections did not have supporting documentation and, in some cases, were based on inadequate methodologies. These line items were revised based on historical trend data, and other information available at the time of the audit. The impact of these forecast adjustments are shown in **Table 2-6**. The paragraphs that follow explain the forecast line-items assessed.

*Revenues***General Property Tax**

General property tax includes collections from class 1 and class 2 properties; comprising residential and agricultural properties, and commercial and industrial properties, respectively. Excluding an emergency levy of \$1.8 million and a tax advance of \$1.0 million, general property tax increased by an average of 3.1 percent from FY 2005-06 through FY 2007-08. The FY 2008-09 projections were based on information provided by the County Auditor's Office.

The revised projections for General Property Tax revenue were based on a more aggressive collection rate of 95.0 percent compared to the County Auditor's projection of 90.8 percent. The increase in collection rate was based on actual collections (as of August 2008) compared to the County's projections. Because of recent uncertainties in the real-estate market, general property tax collections were projected to increase by only 1.0 percent annually, rather than the historical average of 3.0 percent through the forecasted period. Because of the volatility in the economy, it is critical that the District monitor collection rates and make appropriate adjustments to projections.

Furthermore, the District received a tax advance of \$750,000 in FY 2005-06, and \$1 million in FY 2006-07 and FY 2007-08. The District has not included tax advances in the forecast period. However, AOS has included tax advances of \$1 million throughout the forecasted period because of the District's anticipated deficit. Because the District is not properly recording the tax advance in the five-year forecast, AOS has recorded the tax advance in the general property tax and in the tax advance line item as a required reservation.

Lastly, the projections include a loss in revenue of approximately \$925,000 in FY 2009-10 and FY 2010-11 due to the expiration of the emergency levy. It will be necessary for the District to renew this levy or additional reductions will be required to accommodate the revenue loss.

State Funding (Unrestricted and Restricted Grant-in-Aids)

State Funding is comprised of unrestricted and restricted grants-in-aid received through the State Foundation Program. The funding levels are established by the General Assembly during the biannual budgeting process and are administered by ODE. Since the funding levels are established biannually, State funding amounts cannot be projected with absolute certainty. However, detailed assumptions would help Board members and administrators to plan based on expected funding levels and identify causes if revenues do not materialize as expected.

The updated projection for FY 2008-09 was based on ODE's October #1 SF-3 simulation report. Since ODE updates the SF-3⁸ form twice a month, the District should closely monitor the projections and adjust the forecast accordingly. The updated State funding projections for the remaining forecast period were based on a methodology that included historical trending and known factors. However, because of the recent economic downturn and the State budget reductions, certain items found within the SF-3 were held at lower rates than recent averages. The following major assumptions were used to project State funding levels:

- Although the formula average daily membership (ADM) decreased slightly over the prior two fiscal years, the ADM was increased 1 percent each year of the forecast period based on enrollment information provided by the Superintendent.
- House Bill (HB) 119 increased foundation levels to 3.0 percent per year during the biannual budget period. Prior to the State's economic downturn, it would have been reasonable to continue to project a similar increase in future foundation

⁸ The SF-3 Form is used to calculate school district state funding levels based on legislation passed by the Ohio General Assembly during the biannual budgeting process.

levels. As recently as September 2008, ODE was required to make budget reductions of approximately \$25.9 million; of which \$16.4 million directly affects school districts. While these reductions did not apply to the SF-3 calculations, these types of budget cuts would indicate that future growth in State funding may not be consistent with past trends. Therefore, the projections reduce the State foundation levels to a 1.0 percent increase per year.

- Special educational weighted amounts increased by an average 5.3 percent from FY 2002-03 through FY 2007-08. However, the prior two years' funding levels increased less than the historical average; therefore a more conservative increase of 3.0 percent was applied through the forecast period.
- Career tech/adult education has decreased by an average 11.2 percent from FY 2002-03 through FY 2007-08. However, the prior two fiscal years showed slightly smaller decreases than the historical trend. Taking this into consideration, the historical average of 11.2 percent was used through the forecast period to reflect a more conservative projection.
- Poverty-based assistance (PBA) from FY 2005-06 to FY 2007-08 increased by an average of 2 percent. However it increased 10 percent from FY 2006-07 to FY 2007-08. Therefore, a conservative increase of 5 percent was applied through the forecast period, beginning FY 2008-09.
- Parity aid⁹ experienced a 14.3 percent annual average increase from FY 2002-03 to FY 2007-08. However from FY 2005-06 to FY 2007-08, parity aid decreased by an average of 3.4 percent due to an increase in local property wealth. As a result, the revised projections show an annual decrease of 3 percent through the forecast period.
- Other categorical items were based on historical trends, known factors, and calculations found within the State funding program.

Table 2-4 shows the current and revised projections for State funding.

⁹ The Department of Education is required to annually compute and pay to school districts parity aid. Parity aid provides funding beyond the formula aid although it is considered to be a part of the total SF3 calculation and is distributed in converse relationship to the local wealth of school districts.

Table 2-4: Restricted/Unrestricted Grant-in-Aids

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| District's Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,358,660 | \$10,462,247 | \$10,566,869 | \$10,672,538 |
| Restricted Grant-in-Aid | \$1,396,000 | \$1,402,980 | \$1,409,995 | \$1,417,045 |
| Total | \$11,754,660 | \$11,865,227 | \$11,976,864 | \$12,089,583 |
| Revised Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,053,718 | \$10,041,070 | \$10,027,856 | \$10,014,244 |
| Restricted Grant-in-Aid | \$1,598,485 | \$1,621,303 | \$1,645,603 | \$1,671,299 |
| Total | \$11,652,202 | \$11,662,373 | \$11,673,459 | \$11,685,543 |
| Net Impact on Forecast | (\$102,458) | (\$202,854) | (\$303,405) | (\$404,039) |

Source: WHCSD and AOS

As indicated in **Table 2-4**, the revised projections show a total of approximately \$1.0 million less in revenue over the forecast period than the District's projections. Due to the revisions in State funding levels, the District would fall under the transitional aid guarantee¹⁰ through the forecast period, resulting in an average increase of \$1.4 million per year. Although the total formula aid is somewhat constant, the allocation of funds will vary due to the District receiving projected increases in PBA and career technical/adult education.¹¹

WHCSD should also use alternative scenarios when projecting State revenues. When revising the District five-year forecast, two possible scenarios were devised that may impact WHCSD's future financial condition. The first scenario assumes that State foundation levels will increase by 3.0 percent, there is an increase in the District's formula ADM, and that there will be larger increases in categorical items. The second scenario assumes that the State will discontinue providing the transitional aid guarantee to school districts in future biennial budgets, resulting in a larger net impact on the forecast compared to the first scenario. **Table 2-5** illustrates the two scenarios which the District should consider when projecting State funding.

¹⁰ According to ODE's *Ohio's School Foundation Funding Program, The Form SF-3 – Line by Line*, transitional aid guarantee is intended to ease the impact of changes made in the formula from FY 2007-08 to FY 2008-09.

¹¹ PBA and career technical / adult education are both restricted in use, therefore are coded as unrestricted grants-in-aid within the five-year forecast.

Table 2-5: Scenario Projection

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|---|---------------------|----------------------|----------------------|----------------------|
| Scenario 1 – 3% Annual Increase in State Foundation | | | | |
| District's Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,358,660 | \$10,462,247 | \$10,566,869 | \$10,672,538 |
| Restricted Grant-in-Aid | \$1,396,000 | \$1,402,980 | \$1,409,995 | \$1,417,045 |
| Total | \$11,754,660 | \$11,865,227 | \$11,976,864 | \$12,089,583 |
| Revised Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,056,258 | \$9,990,096 | \$9,982,626 | \$10,415,229 |
| Restricted Grant-in-Aid | \$1,595,972 | \$1,672,305 | \$1,752,453 | \$1,836,610 |
| Total | \$11,652,230 | \$11,662,401 | \$11,735,079 | \$12,251,838 |
| <i>Net Impact on Forecast</i> | <i>(\$102,430)</i> | <i>(\$202,826)</i> | <i>(\$241,785)</i> | <i>\$162,256</i> |
| Scenario 2 – Termination of Transitional Aid Guarantee | | | | |
| District's Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,358,660 | \$10,462,247 | \$10,566,869 | \$10,672,538 |
| Restricted Grant-in-Aid | \$1,396,000 | \$1,402,980 | \$1,409,995 | \$1,417,045 |
| Total | \$11,754,660 | \$11,865,227 | \$11,976,864 | \$12,089,583 |
| Revised Projections | | | | |
| Unrestricted Grant-in-Aid | \$10,056,258 | \$8,275,727 | \$8,996,472 | \$8,894,784 |
| Restricted Grant-in-Aid | \$1,595,972 | \$1,618,671 | \$1,642,866 | \$1,668,469 |
| Total | \$11,652,230 | \$9,894,398 | \$10,639,339 | \$10,563,253 |
| <i>Net Impact on Forecast</i> | <i>(\$102,430)</i> | <i>(\$1,970,829)</i> | <i>(\$1,337,526)</i> | <i>(\$1,526,330)</i> |

Source: WHCSD and AOS.

Since audit fieldwork was completed, the State budget projections have worsened and large expenditure reductions may be needed to achieve a balanced budget at the State level. In light of the recent State budget projections, WHCSD should also include a scenario that holds formula aid flat through the forecast period or, in a worst case scenario, includes reductions in formula aid. Including these scenarios would help WHCSD Board members and administrators prepare for the potential impact of funding reductions should they occur.

Other Revenue

Other Revenue consists of items such as tuition and other payments from school districts, other revenue for education provided by the district, transportation fees, earnings on investments, fees for classroom materials, miscellaneous receipts from local sources, and any other revenue sources. The revised projections included assumptions and projections for tuition, interest on investments, classroom materials and fees, revenue from rentals, and other miscellaneous sources of revenue. These items were based on historical trends and known factors. Overall, the revised projections have an average net increase of 1.4 percent per year.

Expenditures

Personal Services (Salaries and Wages)

Personal Services consist of employee wages, substitute costs, supplemental contracts, severance pay, and overtime costs. Personal Services increased from FY 2004-05 to FY 2005-06 because the District hired approximately 40 FTE employees and provided step and negotiated wage increases for all classified and certificated employees. Costs decreased in FY 2006-07 because the District eliminated approximately 19 FTEs.

The revised amounts for Personal Services are projected on an object code level. Future projections include a 3 percent negotiated wage increase for certificated and classified staff. Additionally, based on the FY 2005-06 to FY 2006-07 negotiated agreements, which have expired, a 4.0 percent step increase was applied to certificated staff salary costs and a 3.2 percent step increase for classified staff. As part of the District's recovery proposal, it does not plan on filling vacancies created by retirements in FY 2008-09. This decision was integrated into the projections.

Employees' Retirement/Insurance Benefits (ERIB)

ERIB includes the cost of employee health and life insurance, retirement contributions, Medicare costs, and Workers Compensation premiums. The revised projections for ERIB include anticipated retirement amounts for the certificated and classified staff based on the revised Personal Service projections. Insurance benefits were also recalculated to include a 6.5 percent annual increase in health insurance premiums through the remainder of the forecast period based on the most recent estimated from the State Employment Relations Board and the Kaiser Family Foundation.

Purchased Services

Purchased Services include utilities (electricity, natural gas, water, and telephone), property insurance, open enrollment payments, leases, repair and maintenance, postage, legal fees, and staff development. Purchased Services increased by an average 10.6 percent from FY 2004-05 through FY 2006-07. The largest increase occurred in FY 2005-06 and can be attributed to increases in natural gas expenditures, other professional and technical services, travel/meeting expenses, student transportation purchased from other sources, and open enrollment payments to other districts.

Line items within Purchased Services were projected using historical trends, known changes, and other cost drivers. For example, gas increased by an average of 5.9 percent from FY 2004-05 through FY 2007-08. Therefore, a 5.9 percent increase was applied to each year of the forecast using FY 2008-09 actual expenditures as a base.

Supplies and Materials

The Supplies and Materials category includes general supplies, textbooks, library books, and supplies and materials related to the operation, maintenance, and repair of plant, equipment, and motor vehicles. WHCSD experienced fluctuations in supply and material expenditures ranging from a 47.2 percent increase in FY 2005-06 to a 21.2 percent decrease in FY 2006-07. This volatility is common throughout the District's historical expenditures due to past financial conditions and reporting inconsistencies resulting from frequent turnover in the treasurer's position.

Due to the historical volatility, line items within supplies and materials were flat lined or increased by historical averages. For example, the general supply line item increased by an average of 18.4 percent from FY 2004-05 through FY 2007-08. Because of the District's financial condition, it would not be reasonable to apply this increase through the forecast period. Therefore, the historical average expenditure of \$134,000 was applied through the forecast. Another example is office supplies, which increased by an average of 9.8 percent per year. For this line item, the historical average was used throughout the forecast period. Because supply purchases tend to be discretionary, WHCSD should regularly monitor and, to the extent possible, constrain these expenditures to enhance its future financial stability.

Capital Outlay

The capital outlay category includes expenditures for the acquisition of, or additions to fixed assets. Included are expenditures for land or existing buildings; improvements of grounds; construction of buildings; additions to buildings; remodeling buildings; and new and replacement equipment, furnishings, and vehicles. The District spent \$21,419 in capital outlay in FY 2004-05. In FY 2005-06, the District spent significantly more in capital outlay (\$388,756), although the Treasurer was unable to provide an explanation for the increase in expenditures.

Since the District has not implemented a capital improvement plan (see **R4.3 in facilities**), the projection for FY 2008-09 includes a conservative 5 percent increase over the prior year's projection of \$85,754. Once the District has implemented a capital improvement plan, the projections should be updated and linked to the costs identified in the plan.

Table 2-6 shows the net impact of the revised projections on each line-item and the five-year forecast ending balance when compared to the District's May 2008 projections.

Table 2-6: Net Impact of Revised Five-Year Forecast Projections

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|--|----------------------|----------------------|----------------------|----------------------|
| Revenue | | | | |
| General Property | \$1,247,154 | \$189,253 | \$1,263,946 | \$2,415,842 |
| Tangible Personal Property Tax | (\$124,821) | (\$267,080) | (\$791,511) | \$0 |
| Unrestricted Grant-In-Aid | (\$304,942) | (\$421,177) | (\$539,013) | (\$658,294) |
| Restricted Grants-In-Aid | \$202,485 | \$218,323 | \$235,608 | \$254,254 |
| Other Revenue | (\$47,730) | (\$45,404) | (\$42,855) | (\$40,073) |
| Sub-Total Net Impact Revenues | \$972,146 | (\$326,085) | \$126,176 | \$1,971,730 |
| Expenditures | | | | |
| Personnel Services | (\$932,113) | (\$1,701,895) | (\$2,532,047) | (\$3,426,921) |
| Employee's Retirement / Insurance Benefits | (\$1,218,348) | (\$1,724,684) | (\$2,281,706) | (\$2,894,434) |
| Purchased Services | \$690,167 | \$767,116 | \$844,541 | \$922,369 |
| Supplies and Materials | (\$160,688) | (\$80,057) | \$8,258 | \$104,905 |
| Capital Outlay | \$6,783 | (\$5,465) | (\$17,318) | (\$28,838) |
| Sub-Total Net Impact Expenditures | (\$1,614,199) | (\$2,744,984) | (\$3,978,272) | (\$5,322,918) |
| Total Net Impact | (\$642,053) | (\$3,071,069) | (\$3,852,096) | (\$3,351,188) |

Source: WHCSD and AOS

¹ Change in revenue minus change in expenditures equals net impact on fund balance.

Table 2-6 shows that the revised projections would negatively impact the ending fund balance of the five-year forecast from FY 2008-09 through FY 2011-12, with a cumulative effect of \$10.9 million.

R2.9 WHCSD should implement the recommendations contained in the performance audit to help maintain a positive year-end balance through FY 2011-12 and offset projected deficits. In addition, WHCSD should update its five-year forecast on a regular basis or whenever material changes in assumptions are made or unanticipated events occur.

By revising its assumptions and implementing the performance audit recommendations, including those subject to negotiation, WHCSD should be able to maintain a positive fund balance through FY 2011-12.

Table 2-7 demonstrates the affect on the five-year forecast line items and the ending fund balances, assuming the forecast adjustments are made (see **R2.8**), all recommendations contained in this audit are implemented, and future conditions do not change substantially. **Table 2-7** has also been updated to show FY 2007-08 actual revenue and expenditures. Due to the timing of the audit, **Table 2-8** used the District's revised projections based on its May 31, 2008 forecast for those line items which were not assessed by the auditor.

Table 2-7: Revised Five-Year Forecast (in 000s)

| | Actual | | | Projected | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | FY 2005-06 | FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
| Revenues | | | | | | | |
| General Property | \$16,842 | \$16,245 | \$17,880 | \$17,740 | \$16,039 | \$16,190 | \$16,342 |
| Tangible Personal Property Tax | \$3,471 | \$2,632 | \$2,228 | \$1,671 | \$835 | \$209 | \$0 |
| Unrestricted Grants-in-Aid | \$10,527 | \$10,344 | \$10,144 | \$10,054 | \$10,041 | \$10,028 | \$10,014 |
| Restricted Grants-in-Aid | \$1,664 | \$1,581 | \$1,563 | \$1,598 | \$1,621 | \$1,646 | \$1,671 |
| Property Tax Allocation | \$1,634 | \$2,048 | \$2,837 | \$3,091 | \$3,842 | \$3,859 | \$3,298 |
| All Other Operating Revenue | \$469 | \$756 | \$477 | \$724 | \$734 | \$744 | \$755 |
| Total Revenue | \$34,607 | \$33,606 | \$35,128 | \$34,878 | \$33,113 | \$32,675 | \$32,080 |
| Proceeds from Sale of Notes | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Operating Transfers-In | \$591 | \$953 | \$584 | \$952 | \$952 | \$952 | \$952 |
| Advances-In | \$289 | \$2 | \$0 | \$2 | \$2 | \$2 | \$2 |
| All Other Financial Sources | \$16 | \$1 | \$38 | \$12 | \$12 | \$12 | \$12 |
| Total Other Financing Sources | \$896 | \$956 | \$622 | \$966 | \$966 | \$966 | \$966 |
| Total Revenues and Other Sources | \$35,503 | \$34,562 | \$35,751 | \$35,845 | \$34,079 | \$33,641 | \$33,047 |
| Expenditures | | | | | | | |
| Personnel Services | \$18,729 | \$17,908 | \$18,428 | \$19,642 | \$20,698 | \$21,822 | \$23,019 |
| Employees' Retirement / Insurance Benefits | \$6,412 | \$6,281 | \$7,273 | \$7,954 | \$8,563 | \$9,226 | \$9,947 |
| Purchased Services | \$5,794 | \$6,210 | \$5,591 | \$5,855 | \$5,942 | \$6,032 | \$6,126 |
| Supplies and Materials | \$1,198 | \$946 | \$1,020 | \$1,179 | \$1,200 | \$1,223 | \$1,250 |
| Capital Outlay | \$391 | \$53 | \$86 | \$90 | \$95 | \$99 | \$104 |
| Debt Service: Principal - Other | \$0 | \$0 | \$0 | \$275 | \$0 | \$0 | \$0 |
| Debt Service: Interest and Fiscal Charges | \$0 | \$11 | \$11 | \$11 | \$0 | \$0 | \$0 |
| Other Objects | \$667 | \$657 | \$841 | \$660 | \$660 | \$660 | \$660 |
| Total Expenditures | \$33,191 | \$32,065 | \$33,250 | \$35,665 | \$37,157 | \$39,063 | \$41,106 |
| Operational Transfers - Out | \$967 | \$1,277 | \$1,052 | \$2,127 | \$1,876 | \$1,200 | \$1,295 |
| Advances - Out | \$205 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| All Other Financing Uses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Other Financing Uses | \$1,172 | \$1,277 | \$1,052 | \$2,127 | \$1,876 | \$1,200 | \$1,295 |
| Total Expenditure and Other Financing Uses | \$34,363 | \$33,342 | \$34,301 | \$37,793 | \$39,034 | \$40,263 | \$42,401 |
| Performance Audit Recommendations <u>Not Subject</u> to Negotiation Less Implementation Costs | \$0 | \$0 | \$0 | \$1,018 | \$3,485 | \$3,837 | \$4,185 |
| Performance Audit Recommendations <u>Subject</u> to Negotiation | \$0 | \$0 | \$0 | \$509 | \$1,922 | \$2,600 | \$3,155 |
| Revised Total Expenditure and Other Financing Uses | 34,363 | 33,342 | 34,301 | 36,266 | 33,627 | 33,826 | 35,061 |
| Financing Sources over(under) Expenditures & Other Financing | \$1,140 | \$1,220 | \$1,450 | (\$421) | \$453 | (\$184) | (\$2,015) |
| Beginning Cash Balance | \$1,075 | \$2,215 | \$3,435 | \$4,885 | \$4,464 | \$4,916 | \$4,732 |
| Ending Cash Balance | \$2,215 | \$3,435 | \$4,885 | \$4,464 | \$4,916 | \$4,732 | \$2,717 |
| Outstanding Encumbrances | \$1,519 | \$1,864 | \$1,706 | \$2,000 | \$2,000 | \$2,000 | \$2,000 |
| Textbook and Instructional Materials | \$0 | \$424 | \$424 | \$424 | \$424 | \$424 | \$424 |
| Property Tax Advance | \$750 | \$1,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 | \$1,000 |
| Total Reservations | \$750 | \$1,424 | \$1,424 | \$1,424 | \$1,424 | \$1,424 | \$1,424 |
| Fund Balance June 30 for Certification of Appropriations | (\$53) | \$147 | \$1,755 | \$1,040 | \$1,492 | \$1,308 | (\$707) |
| Fund Balance June 30 | (\$53) | \$147 | \$1,755 | \$1,040 | \$1,492 | \$1,308 | (\$707) |
| Renewal Levies | \$0 | \$0 | \$0 | \$0 | \$925 | \$1,850 | \$1,850 |
| Cumulative Balance of New Levies | \$0 | \$0 | \$0 | \$0 | \$925 | \$2,775 | \$4,625 |
| Unreserved Fund Balance June 30 | (\$53) | \$147 | \$1,755 | \$1,040 | \$2,417 | \$4,083 | \$3,918 |

Source: WHCSD's May 2008 Five-Year Forecast and AOS

Note: Numbers may vary due to rounding

Table 2-8 summarizes the performance audit recommendations reflected in the revised five-year forecast presented in **Table 2-7**. Recommendations are divided into three categories, those not subject to negotiation, those that are subject to negotiation, and those that represent implementation costs.

Table 2-8: Summary of Performance Audit Recommendations (in 000s)

| | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 |
|---|----------------|----------------|----------------|----------------|
| Recommendations Not Subject to Negotiations | | | | |
| R3.1 Eliminate 7.0 central administrator FTEs | \$364 | \$754 | \$782 | \$810 |
| R3.2 Eliminate 7.0 office/clerical FTEs | \$182 | \$376 | \$390 | \$405 |
| R3.3 Eliminate 17.0 teaching aide FTEs | \$291 | \$603 | \$625 | \$648 |
| R3.7 Eliminate additional retirement benefit | \$0 | \$183 | \$189 | \$194 |
| R3.8 Participate in a Bureau of Workers' Compensation Discount plan | \$0 | \$56 | \$58 | \$60 |
| R3.16 Reduce direct special education expenditures by 5 percent | \$0 | \$241 | \$482 | \$723 |
| R4.1 Eliminate 4 custodial FTEs | \$85 | \$175 | \$182 | \$188 |
| R4.2 Reduce overtime expenditures to 2 percent of salaries | \$8 | \$16 | \$16 | \$16 |
| R4.3 Reduce purchased service expenditures through improved planning and management | \$0 | \$120 | \$120 | \$120 |
| R4.6 Close an Elementary School | \$0 | \$314 | \$333 | \$355 |
| R4.7 Develop energy management and conservation policies and procedures | \$0 | \$100 | \$100 | \$100 |
| R4.8 Reduce Recreation Center costs to the General Fund | \$0 | \$200 | \$200 | \$200 |
| R5.5 Eliminate 2 buses | \$46 | \$94 | \$97 | \$100 |
| R5.6 Reduce maintenance costs through improved preventive maintenance and management | \$0 | \$46 | \$46 | \$46 |
| R5.8 Reduce special needs transportation costs through recommended practices | \$0 | \$175 | \$175 | \$175 |
| R6.4 Implement food service utility charge back | \$45 | \$46 | \$48 | \$50 |
| Subtotal Not Subject to Negotiations | \$1,020 | \$3,500 | \$3,842 | \$4,190 |
| Recommendations Subject to Negotiations | | | | |
| R3.6 Limit negotiated wage increase to 0,0,0,1 | \$509 | \$1,062 | \$1,662 | \$2,130 |
| R3.9 Reduction in medical plans and increase in employee share of monthly premium | \$0 | \$806 | \$884 | \$970 |
| R3.10 Negotiate fixed amount for insurance opt out incentive | \$0 | \$2 | \$2 | \$2 |
| R5.7 Improve personnel management practices and reduce overtime | \$0 | \$53 | \$53 | \$53 |
| Subtotal Subject to Negotiations | \$509 | \$1,925 | \$2,600 | \$3,155 |
| Total Cost Savings from Performance Audit Recommendations | \$1,529 | \$5,422 | \$6,442 | \$7,345 |
| Implementation Costs | | | | |
| R3.2 Implement a substitute calling system | \$0 | \$1 | \$1 | \$1 |
| R4.4 Purchase a CMMS system | \$1 | \$1 | \$1 | \$1 |
| R5.5 Purchase routing software | \$0 | \$10 | \$2 | \$2 |
| R5.6 Purchase vehicle maintenance management software | \$0 | \$3 | \$1 | \$1 |
| Total Implementation Cost | \$1 | \$75 | \$5 | \$5 |

Source: Performance audit recommendations

Note: Total savings reported in the revised forecast may vary due to rounding.

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Human Resources

Background

This section of the performance audit focuses on the human resource (HR) functions of the Warrensville Heights City School District (WHCSD or the District). Operations were evaluated against leading practices, industry standards, and selected peer districts.¹ Comparisons were made for the purpose of developing recommendations to improve efficiencies 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 the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Ohio Department of Education (ODE), the Society for Human Resource Management (SHRM), the Henry J. Kaiser Family Foundation (Kaiser), the Ohio Education Association (OEA), the State Employment Relations Board (SERB), and the Ohio Department of Administrative Services (DAS).

Organizational Structure

The District's major HR functions are completed by the Human Resources Director, the Director of Accountability and Professional Development, the Business Manager, and the Treasurer's Office. The HR Department consists of the Director of HR and two clerical employees. The HR Department oversees management of the certificated collective bargaining agreement, personnel recruitment, and scheduling certificated substitutes. The Director of Accountability and Professional Development monitors staff course work and licensure requirement compliance, and oversees professional development activities for certificated staff. In addition to the Business Manager's other duties, he administers the classified collective bargaining agreement, supervises workers' compensation activities, and presents health insurance premiums to the Board of Education for approval (see **R3.9** and **R3.11**). Lastly, employees in the Treasurer's Office process payroll, administer employee benefits, and enter staff data into the Education Management Information System (EMIS). The HR department in many school districts is responsible for staff recruitment, professional development, workers' compensation, and insurance benefits; however, WHCSD has divided these responsibilities among different administrators, and this contributes, in part, to the high number of central administrators (see **R3.1**).

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

Staffing

The District reports student enrollment and staffing levels to ODE through EMIS. Student enrollment is used in this audit to calculate the number of full-time equivalent (FTE) employees per 1,000 students. The EMIS staffing reports were reviewed for accuracy and it was determined that there were errors, such as incorrect funding sources and hourly rates of pay (see **R3.5**). AOS used the EMIS data that was reported to ODE, but made adjustments to resolve identified errors and make the data useable for the purposes of this audit.

Table 3-1 shows the number of FTE employees per 1,000 students for WHCSD and compares that data to the peer district average. Presenting staffing data in this manner reduces variances attributable to the size of the districts.

Table 3-1: Staff Comparison (FTEs per 1,000 Students)

| Category | WHCSD | Peer District Average | FTE Difference from Peer Districts ¹ |
|--------------------------------|---------------|-----------------------|---|
| Students Educated ² | 2,511.01 | 1,889.00 | N/A |
| Administrative Staff | 11.23 | 6.00 | 5.23 |
| Educational Staff | 74.87 | 65.77 | 9.10 |
| Professional Staff | 2.39 | 1.61 | 0.78 |
| Technical Staff | 2.39 | 2.60 | (0.21) |
| Office / Clerical Staff | 21.31 | 8.67 | 12.64 |
| Maintenance Staff | 0.40 | 1.12 | (0.72) |
| Custodial / Grounds Staff | 9.56 | 6.28 | 3.28 |
| Transportation Staff | 5.97 | 6.22 | (0.25) |
| Food Service Staff | 4.68 | 5.46 | (0.78) |
| All Other Staff | 7.57 | 3.69 | 3.88 |
| Total FTE Staff | 137.97 | 107.42 | 30.55 |

Source: WHCSD FY 2007-08 and peer district FY 2006-07 EMIS staffing data as reported to ODE.

¹ ODE requires districts to enter FTEs into EMIS based on the number of hours included in a full-time position in the employees' collective bargaining agreement. In most cases, this represents an eight-hour day, but in classifications like food service and transportation, an FTE, as defined by the district's collective bargaining agreement may be less than eight hours and differ from district to district.

² Students educated equals students receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.

Table 3-1 shows that, when compared to the peer average, WHCSD staffing levels per 1,000 students are higher in all categories except technical staff, maintenance staff, transportation staff, and food service staff. Each category where the staffing level is higher than the peer average represents a potential opportunity for the District to reduce personnel costs (see **R3.1** through **R3.3**).

Compensation

Table 3-2 compares WHCSD's average salaries to the peer averages by staffing category. Years of service, wage increases, step increases, and the education level attained by the personnel within a category are factors which directly impact average salaries.

Table 3-2: Average Salaries Comparison

| Staffing Category | WHCSD | Peer Districts | % Difference |
|--------------------------------------|-----------------|-----------------|--------------|
| Administrators | \$74,027 | \$68,196 | 8.6% |
| Educational Staff | \$61,965 | \$50,075 | 23.7% |
| Professional Staff | \$70,411 | \$48,707 | 44.6% |
| Technical Staff | \$33,876 | \$17,684 | 91.6% |
| Office / Clerical Staff | \$29,790 | \$23,460 | 27.0% |
| Crafts & Trades Workers | \$46,817 | \$42,827 | 9.3% |
| Operative | \$30,408 | \$17,067 | 78.2% |
| Service Worker | \$30,261 | \$19,723 | 53.4% |
| Total Average Reported Salary | \$51,767 | \$41,676 | 24.2% |

Source: FY 2007-08 average salaries from ODE EMIS reports.

As shown in **Table 3-2**, WHCSD pays higher average salaries than the peer average in every category. Efforts to bring salaries in-line with peer averages would significantly reduce the long-term financial liabilities of the District (see **R3.6** and **R3.7**).

Negotiated Agreements

The District's two main employee groups, certificated and classified personnel, are covered under collective bargaining agreements:

- **Warrensville Education Association (WEA) Agreement:** Membership in this collective bargaining unit includes all teachers and other professional certificated personnel. The collective bargaining agreement was effective from July 2005 through August 2008.
- **Ohio Association of Public School Employees (OAPSE) Agreement:** This collective bargaining unit represents all classified school support personnel, including maintenance and custodial staff, clerical staff, food service personnel, educational aides, transportation staff, and bookkeepers. The agreement was effective from July 2005 through June 2008.

Although both collective bargaining agreements have expired, the District has been in negotiations to finalize new contracts. As part of the performance audit, certain contractual and employment issues were assessed and compared to Ohio law and industry benchmarks. Areas of analysis included common contractual provisions such as employees' share of health care costs (see **R3.11**, and **R3.12**) and sick leave usage (see **R3.13**).

Specialized Programs

WHCSD's special education program assists students with special needs. WHCSD utilizes the Cuyahoga County Education Service Center for vision, behavioral health, and interpreter services. The District employs paraprofessionals to assist with multi-handicapped students in resource rooms as well as aides in regular classrooms for inclusion services (see **R3.3**). WHCSD's expenditures are higher than peer district and surrounding district averages for special instruction (**R3.16**).

Audit Objectives for the Human Resources Section

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

- Is the District's allocation of personnel efficient and effective?
- Is the District's compensation package in line with high performing districts, state averages, and industry practices?
- How does the cost of benefits, including workers' compensation, offered by the District compare with State averages and industry benchmarks?
- Are the District's negotiated agreements consistent with industry standards, State statutes, and leading practices?
- Does the District effectively address HR management and has it created a working environment that enhances its workforce?
- Does the District use technology to manage its human resources?
- Does the Board operate in an effective manner?
- Does the District provide special education program for students with disabilities that maximize resources?

Recommendations

Staffing

- R3.1 WHCSD should eliminate 7.0 central administrative FTEs to bring its staffing level in line with the peer average. A reorganization and consolidation of administrative responsibilities would help the District in implementing a reduction in administrative positions. Also, conducting a job audit of central administrative positions would also assist the District in reorganizing its central office.**

Central administrators are managerial positions not covered within a collective bargaining agreement, such as the Superintendent, Treasurer, directors, coordinators, supervisors, managers, and administrative assistants. **Table 3-3** compares the District's FTE administrative staffing to the peer average on a per 1,000 student basis, by central, site based, and total administrators. This analysis also compares administrators per building as well as employees per administrator.

Table 3-3: Administrative Staffing Comparison

| | WHCSD | Peer Average | FTE Difference |
|---|-------------|--------------|----------------|
| Central Administrators | 18.2 | 6.3 | 11.9 |
| Site Based Administrators | 10.0 | 5.0 | 5.0 |
| Total FTE Administrators | 28.2 | 11.3 | 16.9 |
| Site Based Administrators per Building | 1.7 | 1.1 | 0.6 |
| Employees per Administrator | 11.3 | 17.6 | (6.3) |
| Central Administrators per 1,000 Students | 7.2 | 3.4 | 3.8 |
| Site Based Administrators per 1,000 Students | 4.0 | 2.6 | 1.4 |
| Total Administrators per 1,000 Students | 11.2 | 6.0 | 5.2 |
| Revised Central Administrators per 1,000 Students based on 7.0 FTE reduction¹ | 3.7 | 3.4 | 0.3 |

Source: WHCSD FY 2007-08 and peer FY 2006-07 EMIS reports as reported to ODE.

¹ There are two central administrators paid from non-General Funds. The revised calculation of 3.7 central administrators per 1,000 students excludes these two employees and is based on total of 9.2 total central administrative FTEs.

Note: WHCSD created a new position of Director of Technology in FY 2008-09 and this position is not included in number of central administrator FTEs for the District.

As illustrated in **Table 3-3**, WHCSD administrative staffing levels exceed the peer average in every comparison. While WHCSD is higher in terms of site based administrators, these administrators are used within the District to address behavioral issues and safety concerns. The District stated that the higher staffing in site-based administrators was needed to address disciplinary problems. The audit recommends the District reduce central administrators and evaluate the necessity of the middle school

assistant principals. However, if the District closes one school building, the site-based administrative positions affiliated with that building could be eliminated (see **R4.6 in facilities**).

WHCSD has allowed multiple departments to handle similar administrative functions, a practice that has created a fragmentation in functions such as in the area of human resources described in the background of this section. During the course of the audit, the District reorganized by adding an additional central administrative position—the Director of Technology. Prior to eliminating central administrator positions, the District should conduct a job audit of all departments. A job audit is an informal procedure used to clarify the duties and reporting relationships; evaluate the work process and operations of departments; and assess changes in positions. Conducting a job audit will assist the District in determining which administrative duties or positions could be consolidated.

Financial implication: By reducing central administrative staff by 7.0 FTE, the District would save approximately \$725,000 annually in salaries and benefits.

R3.2 The District should eliminate 7.0 FTE office/clerical positions to bring staffing levels in line with the peer average. To help facilitate these reductions, the District should consider purchasing an automated substitute calling system and conduct a job audit of clerical positions. Additionally, if the District takes action to reduce central administrators (R3.1), the office/clerical positions affiliated with each central administrator should be eliminated. Lastly, if the District closes a school building (see R4.6), it may be able to eliminate the clerical positions assigned to that building.

During the audit, the District purchased an automated substitute calling system that is scheduled to be in operation for the 2009-10 school year.

Office/clerical staff includes secretaries in each of the school buildings and those in the central office. There is a secretary assigned to most of the administrators in the central administrative office. **Table 3-4** compares WHCSD's office/clerical staffing to the peer averages.

Table 3-4: Office/Clerical Staff (FTE) Comparison

| | WHCSD ¹ | Peer District Average | Variance |
|--|--------------------|-----------------------|----------|
| FY 2007-08 Staffing Levels | | | |
| Total Clerical Staff ² | 22.0 | 11.7 | 10.3 |
| Clerical Staff per 1,000 Students | 8.8 | 5.8 | 3.0 |
| Clerical Staff per School Building | 3.7 | 2.6 | 1.1 |
| Recommended Staffing Levels | | | |
| Revised Total Clerical Staff | 15.0 | 11.7 | 3.3 |
| Revised Clerical Staff per 1,000 Students | 6.0 | 5.8 | 0.2 |
| Revised Clerical Staff per School Building | 2.5 | 2.6 | (0.1) |

Source: WHCSD FY 2007-08 and FY 2006-07 peer district EMIS data as reported to ODE.

¹FTEs were adjusted to reflect retirements that occurred after EMIS data was submitted and the District did not fill the vacancies.

²Excludes teaching aides (505); includes bookkeepers (501), clerical (502), and all other office/clerical (504, 506).

Compared to the peer average in **Table 3-4**, WHCSD employs more office/clerical FTEs on a per 1,000 student and per building basis. The District would need to reduce approximately 7.0 FTEs to be comparable to the peer average. Higher staffing in this area can be attributed, in part, to the fact that the District does have a formal staffing plan (see **R3.4**), has a higher number of central administrators (see **R3.1**), and does not use an automated substitute calling system. Rather, the District has one employee that works additional hours each day to manually locate substitute employees. *Education World* (EducationWorld.com, 2006) states that many school districts are now using automated substitute calling systems that are either web or phone-based. These systems eliminate the labor intensive task of calling substitutes manually and tracking employee leave information.

If the District reduces the number of central administrators (see **R3.1**), then the office/clerical FTEs associated with those positions could be reduced. In addition, conducting job audits would help the District identify positions or responsibilities that can be consolidated. Job audits are conducted to clarify or verify the duties and reporting relationships; evaluate the work process and department operations; and provide an opportunity to expand duties and responsibilities of a position. Lastly, the District operates with more buildings than it currently needs, considering its historical enrollment decline and building capacity utilization (see **R4.6** in **facilities**). Excess building capacity requires the District to employ additional administrative and support staff (clerical, custodial, principals, etc.) in order to operate those buildings.

Financial Implication: By reducing 7.0 office/clerical FTEs, the District would save approximately \$351,000 annually in salaries and benefits. However, if WHCSD implements an automated substitute calling system, it will incur a one-time cost of

approximately \$900 for software, training, and installation fees. In addition, it would incur annual costs of approximately \$300 for system maintenance and support.

R3.3 WHCSD should eliminate 17 FTE teaching aide positions² in order to bring staffing levels in line with the peer average. A reduction in the number of teaching aides would reduce expenditures and help the District gain financial stability. However, as teaching aides are used primarily to provide special education services, the District should also review its individualized education programs (IEPs) to ensure that the number of teaching aides is appropriate for the services required by the special needs population.

WHCSD employs teaching aides and instructional paraprofessionals to assist students with IEPs. According to ODE, teaching aides are to assist a teacher with routine activities associated with teaching, such as monitoring, conducting routine exercises, operating equipment, and clerking. Instructional paraprofessionals provide instructional assistance in one-on-one tutoring, classroom management, or instructional support services under the direct supervision of a teacher.

Table 3-5 compares teaching aide and instructional paraprofessional staffing levels to the peer averages. The District has a total of 27.5 teaching aide FTEs. However, 3.0 teaching aide FTEs are supported by the Poverty Aid Grant and are not included in this analysis. The 24.5 FTEs shown in **Table 3-5** are paid from the District's General Fund.

Table 3-5: Teaching Aide Staffing Comparison (in FTEs)

| Employment Classification | WHCSD | WHCSD FTEs per 1,000 Students | Peer District Avg. | Peer District Avg. per 1,000 Students | Difference in FTEs per 1,000 Students |
|---|-------------|-------------------------------|--------------------|---------------------------------------|---------------------------------------|
| Teaching Aides | 24.5 | 9.8 | 6.5 | 2.8 | 7.0 |
| Instructional Paraprofessionals | 3.5 | 1.4 | 3.1 | 1.3 | 0.1 |
| Total Teaching Aides & Paraprofessionals | 28.0 | 12.4 | 9.6 | 4.1 | 8.3 |

Source: WHCSD and peer district FY 2007-08 EMIS staffing data as reported to ODE

Table 3-5 shows that WHCSD maintains 7.0 more FTE teaching aides per 1,000 students than the peer average. In order to bring staffing levels in line with the peer district average, WHCSD would need to eliminate 17 FTE teaching aide positions. Staffing levels in excess of the peer average could be indicators of staffing inefficiencies which result in additional personnel costs (see **R3.4**). Also, WHCSD should review IEP development to ensure it is appropriately providing teaching aide services to its special needs students.

² WHCSD should first eliminate positions in this classification that are paid from the General Fund.

Financial Implication: By eliminating 17 FTE teaching aide positions, the District could save approximately \$563,000 annually in salaries and benefits.

R3.4 The District should develop a formal staffing plan to address current and future staffing needs. When doing so, it 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 or any set methodology for determining staffing needs. The District hired a consultant in 2007 to develop a staffing analysis. The staffing analysis completed by the consultant listed staff changes by building; however, it did not provide the District with workload measures or staffing ratios that could be used to efficiently plan staffing levels in the District.

Strategic Staffing Plans (SHRM, June 2002) notes that high performing organizations use staffing plans and a system to monitor and control the cost of engaging human capital. Strategic staffing plans form an infrastructure to support effective decision-making in an organization. SHRM also elaborated on the effect of strategic staffing plans on organizations in *Staffing Strategy Over the Business Cycle* (SHRM, June 2005). In detailing how organizations may react to changes in the business cycle, SHRM noted that reductions in staffing to meet declining labor needs often did not result in anticipated savings for 12 to 18 months. As a result, staffing plans tied to strategic plans and organizational needs can help organizations better meet the constraints of their operating environments.

Ohio school districts that use strategic staffing plans include the Cincinnati City School District in Hamilton County and the Lakota Local School District in Butler County. Cincinnati 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 by the district's Instructional Leadership Teams. Lakota Local Schools developed a formal staffing plan that determines the number of classified employees needed based on enrollment and workload measures.

Without a formal staffing plan, the District risks being inappropriately staffed, employing too many or too few employees to perform at an optimal level, especially with the District's changing enrollment. By implementing a staffing plan and updating the plan on an annual basis, WHCSD will be better prepared to make changes to staffing levels in

response to its financial condition. A staffing plan could be completed by existing District staff at no additional cost.

R3.5 WHCSD should develop guidelines and procedures to ensure that accurate staff information is prepared and reported to ODE through EMIS. District staff responsible for EMIS reporting should attend training to ensure that they can appropriately and consistently use the definitions, procedures, and guidelines in the EMIS Manual. Training would help ensure the accuracy of data entered and assist in accurate staffing assessments.

The District's EMIS reports contain errors such as incorrect fund source codes and inaccurate hourly rates on the annual salary line. In prior years, WHCSD submitted inaccurate and unreliable EMIS data. As a result, ODE provided technical assistance to help the District improve its reporting. While the FY 2007-08 data contained errors, it showed improvements over prior fiscal years. However, the District's process for preparing and submitting EMIS data is not completed in a timely fashion by the responsible parties within the Treasurer's Office. As a result, the staff rushes to meet ODE deadlines and, because of the haste of entry and limited time for review, makes input errors. In addition, the District did not include part-time employees in its EMIS data. This error was due, in part, to inaccurate instructions in the EMIS manual and faulty guidance from the District's information technology center (ITC). WHCSD has a Data Management Team that meets monthly to inform staff of EMIS updates, review error reports and timelines for completion of data submissions, and discuss issues and concerns with the EMIS software. While the Data Management Team is a good practice that has helped the District to improve its reporting, EMIS reports continue to contain errors.

ORC § 3301.0714 contains guidelines for the EMIS system which include the requirement to report personnel and classroom enrollment data. The total number of licensed and non-licensed employees and the full-time equivalent staffing by category are required to be reported and maintained for each Ohio school district. ODE created and maintains a manual which outlines specific instructions for EMIS data submission. The data should be submitted in accordance with EMIS manual instructions, which include procedures for ensuring the accuracy and completeness of the data before submission and through a data verification process. While districts are not required to use the State provided software, they are required to submit accurate data in accordance with requirements developed by ODE. Chapter 3 of the EMIS manual is devoted to the submission of staff data and the requirements associated with ensuring the accuracy and validity of the data.

The data that is collected through the EMIS system is used for State and federal reporting, funding and distribution of payments; an academic accountability system; and the generation of Statewide and district reports. EMIS data can be used by districts when

making management decisions, including compliance with required staffing levels. Improperly entering information can cause a district to over- or under-report the number of employees, the hours they work, and their annual wages. In addition, inaccurate information can negatively impact the District decision making process. EMIS training is available through the regional ITC at no additional cost to the District.

Compensation

R3.6 In order to address its forecasted deficit and bring its salaries closer to peer averages, the District should seek to reduce future salary and wage expenditures. To achieve this, WHCSD should attempt to negotiate some or all of the following options: limit future negotiated wage increases; freeze or lower step increases; freeze or lower longevity pay for classified bargaining unit staff; develop and implement new salary schedules for all staff; and discontinue providing an additional retirement benefit (R3.7). Implementing all or some combination of these actions will help bring average salaries for certificated and classified employees more in line with the peer averages while remaining competitive with other area districts. In the event that the District is unable to achieve the negotiated actions recommended, the District will extend the length of time to bring salaries in line with the peer averages.

During the course of the audit, the District and both bargaining units agreed to a zero percent negotiated wage increase for FY 2008-09. District administrators also did not receive a negotiated wage increase for FYs 2007-08 and 2008-09.

The District has given a 3 percent wage increase for the last three years in addition to step increases. A comparison to the peer averages (**Table 3-2**) shows the District's average salaries are higher than peer averages in every staffing category. An additional comparison was conducted to review the average teacher salary for WHCSD and surrounding districts and the result of this comparison is shown in **Table 3-6**.

Table 3-6: Average Teacher Salary Comparison FY 2007-08

| | Average Teacher Salary | % Difference |
|--|------------------------|---------------|
| Warrensville Heights City Schools | \$62,672 | |
| Maple Heights City Schools | \$52,074 | 20.35% |
| Brooklyn City Schools | \$60,015 | 4.43% |
| East Cleveland City Schools | \$58,867 | 6.46% |
| Euclid City Schools | \$56,570 | 10.79% |
| Garfield Heights City Schools | \$59,318 | 5.65% |
| Surrounding District Average | \$57,369 | 17.34% |
| State Average | \$53,410 | 9.24% |

Source: ODE Average Teacher Salary Reports FY 2007-08

As illustrated in **Table 3-6**, the average teacher salary is higher than the State average and the average of the surrounding districts. Years of service, negotiated wage increases, and step increases directly impact average salaries. In order to bring salaries more in line with peer districts or surrounding districts, WHCSD should seek to limit wage increases, and examine the step increases within its salary structure.

The National Association for State Budget Officers, in *Budget Shortfalls: Strategies for Closing Spending and Revenue Gaps* (2002), highlights a number of strategies and measures for closing revenue and spending gaps. Among the recommended strategies that directly affect expenditures is the freezing of annual wage increases for employees.

Compensating employees at higher-than-average levels has resulted in high staffing costs and contributed to the District's financial instability. By limiting future salary increases, the District can bring personnel costs more in line with the surrounding and peer districts. While the financial benefit of a renegotiated salary schedule may not appear immediately, compensation will gradually move to a level commensurate with peer and surrounding district averages as the surrounding districts experience salary increases and attrition reduces WHCSD's total personnel costs.

Financial Implications: Limiting wage increases would help the District bring average salaries closer to regional levels and peer averages. If the District negotiated zero percent negotiated wage increases for three years (FY 2008-2009 – FY 2010-2011) and a 1 percent in FY 2011-2012, the District could avoid salary costs of approximately \$509,000, \$1.1 million, \$1.7 million, and \$2.1 million in FY 2008-09, FY 2009-10, FY 2010-11, and FY 2011-12, respectively. While the District may negotiate a different combination of changes to lower future wage increases, it should attempt to obtain the same level of identified savings.

R3.7 In an effort to reduce compensation, WHCSD should cease paying the employee's share of the retirement benefit for all administrative positions. This will help bring the District's administrative compensation in line with the peers and reduce General Fund expenditures.

WHCSD pays both the employer and employee share of the retirement benefit for 22 District employees. The 22 positions receiving this benefit are:

- Accountability & Staff Development;
- Assistant Principals (5);
- Assistant Treasurer;
- Business Manager;
- Co-Curricular Activities Director;
- Coordinator of Special Education;

- Curriculum & Instruction Director;
- Human Resource Director;
- Principals (6);
- Pupil Personnel Director;
- Special Education Director;
- Superintendent; and
- Treasurer.

Of the 22 positions listed above, 12 of them receive an additional 1 percent towards their retirement benefit. Those positions include:

- Accountability & Staff Development Director;
- Assistant Principal (1);
- Assistant Treasurer;
- Co-curricular Activities Director;
- Coordinator of Special Education;
- Curriculum & Instruction Director;
- Principals (4);
- Pupil Personnel Director; and
- Treasurer.

School districts in Ohio are required to administer payments into two retirement plans: the State Teachers Retirement System (STRS) for teachers and other certificated staff, and the School Employees Retirement System (SERS) for positions such as secretaries, custodians, business managers, teacher aides, dentists, bus drivers, and food service personnel. STRS and SERS mandate the percentages of contribution to be made by an employer and employee. Employers are required to contribute 14 percent toward each employee's retirement fund based on the employee's annual salary. Employees must contribute 10 percent of their gross earnings.

Under IRS rulings, employees' contributions to SERS may be picked up by the employer and excluded from the employees' gross income. According to SERS, school districts have adopted three types of retirement pick-up plans; salary reduction, board paid, and pick-up on pick-up. The salary reduction plan requires employees to make contributions to SERS by deducting the retirement benefit from their gross salary. Under the board paid plan, contributions are paid by the school district and no contributions are deducted from the employee's salary. Finally, with the pick-up on pick-up plan, the employees' retirement contributions and an additional contribution percent is paid by the school district.

While WHCSD's classified and certificated employees make required employee retirement contributions through salary deduction to SERS or STRS, 10 of the District's 22 administrators listed above receive retirement benefits from the District through the board paid option. In addition, 12 administrators receive an additional benefit because not only does the Board cover the employees' required 10 percent contribution but it also pays an additional 10 percent of the 10 percent (1 percent of salary) as a retirement contribution also known as the pick-up on pick-up option. By eliminating this additional retirement benefit the District could provide necessary financial relief.

Financial Implication: If the District stopped paying the employee share of the retirement benefit and the additional 1 percent for all positions, it could save approximately \$173,000 annually based on FY 2007-08 wages.

Benefits

R3.8 The District should implement the Bureau of Workers' Compensation's (BWC) leading practices for workplace safety and enroll in a BWC discount program to reduce worker's compensation claims and the associated costs. The District should also formally adopt and implement continuous on-the-job training to enhance workplace safety. Mandatory job safety training increases awareness and keeps employees updated on new practices.

The District uses a third party administrator to handle workers' compensation claims. The District receives a quarterly report from the administrator that outlines the claims with updated medical and compensation amounts. In the past, the District did not actively manage workers' compensation claims or conduct job safety training. As a result, it incurred over 140 workers' compensation claims between 2002 and 2008. In 2008, WHCSD began actively addressing its workers' compensation claims by strengthening the relationship with local medical facilities and encouraging injured workers to return to work. However, savings from these changes will not be realized until 2010.

BWC classifies the risk associated with public employers using an employer modification rate (EMR). The EMR is based on the type of employer and claims history and determines the discount on the base rate or the penalty amount over the base rate the employer will pay in premiums. The calendar year 2007 base rate for school districts was \$1.18 for every \$100 of payroll. While the District's EMR decreased from 2.36 in 2007 to 2.31 in 2008, it remains in a penalty status and is paying twice the base rate for school districts. The changes that the District has implemented through its relationship with local medical facilities and its return to work program will not affect WHCSD's EMR until 2010. The District's 2008 premium payment was based on 2007 actual payroll and claims that occurred during from 2002 to 2005. WHCSD's 2008 workers' compensation premium was approximately \$605,000.

BWC encourages employers to prevent claims by offering assistance and funding to initiate work place safety programs. BWC programs reduce premiums by lowering the EMR used in payment formulas. These programs include the Premium Discount Program (PDP), the Drug-Free Workplace Program (DFWP), and the \$15,000 Medical Only Program (15K Program). The BWC's 10-Step Business Plan is the primary component of the PDP and DFWP. BWC provides a discount on the EMR as an incentive for entities to implement PDP and DFWP programs as these programs are helpful in reducing the number and cost of workers' compensation claims.

Another program offered through BWC is the Safety Council Program. The BWC Safety Council Program provides local communities with quality programs addressing occupational safety and health, workers' compensation, and risk management education and information. The councils inform participants about new techniques, products and services, and provide a thorough knowledge of these services. Employers can receive up to a 4 percent rebate on annual premiums paid by completing the safety council requirements. The safety council rewards employers with a 2 percent rebate for meeting all of the participation requirements and a 2 percent performance bonus for reducing either the frequency or severity of claims by 10 percent, or with maintenance of both frequency and severity at zero.

According to BWC, WHCSD participated in a discount program in 2005, and received a 10 percent discount on its premium. However, it is not currently enrolled in any discount program. In FY 2007-08, the District started participating in a safety council program.

Because the District has not proactively managed work place injuries, it incurs workers' compensation costs over and above those of other employers with comparable risk profiles. Participating in BWC programs will help the District reduce BWC premium costs through discounts. If the programs result in a reduction in work related injuries, this will reduce the District's experience modifier in future year premium calculations.

Financial Implication: If the District received a 10 percent discount by enrolling in a BWC premium discount program, it could save approximately \$53,000 annually, based on the calendar year 2007 payroll and the 2008 employer modification rate with a 10 percent discount.

R3.9 The District should form an internal committee to evaluate health insurance on an on-going basis and ensure the District is following recommended practices. The committee could be helpful in identifying cost-saving strategies and determining the appropriate design for the District's health insurance program.

The District does not have an insurance committee and the benefit levels for the insurance plans are not reviewed annually. The Business Manager receives premium

changes from Kaiser Permanente and Medical Mutual and presents the figures at a Board meeting. The Board then approves the monthly premium amounts.

As noted in *Research Report: What Works Now – Employer Strategies and Tactics for Controlling Health Care Costs* (Workforce Management, 2004), companies use a variety of strategies to better manage health care costs, including the use of an internal labor/management committee. This committee can help disseminate information to employees about the employer's financial situation and the impact of health care costs. One source of information often used is from a third-party administrator regarding historical costs of health-related services used by employees. This helps to educate employees about what drives increases in health insurance premiums. Information sharing can also help persuade employees to accept increased co-pay amounts or other costs which partially offset the effect of premium increases on the employer.

Effective January 2009, the Ohio Administrative Code will include required practice standards for public school district health plans. OAC § 3306-2-03 states that recommended practice standards require health care plans offered by a school district to include wellness and disease management programs. OAC § 3306-2-05 outlines the requirements for filing annual status reports, which will describe the progress made to reduce the rate of insurance premiums and employee out of pocket expenses.

By instituting an insurance committee that would annually review health benefit levels and ensure the use of recommended practice standards, the District would be proactively assessing the impact that health insurance has on the District. In addition, the insurance committee could serve as a resource and assist the District in making changes to employee benefits, including the District's opt-out incentive (**R3.10**), employee contributions and the number of plans offered (**R3.11**), and the structure of its benefit plans (**R3.12**).

R3.10 WHCSD should negotiate a fixed amount to be paid to employees that choose to not participate in the District's medical plan. This fixed amount should be tied to the lowest plan cost.

WHCSD offers an incentive to employees that elect to opt out of its medical insurance. The incentive amount is 25 percent of the annual medical premium for the employee's respective level of coverage. There is nothing that limits this amount to the lowest cost plan. The incentive amounts given to employees to opt out of the District's insurance are listed in **Table 3-7** by plan type.

Table 3-7: Annual Opt Out Incentive

| | Kaiser Plan A | Kaiser Plan B | Medical Mutual Health Ohio | Medical Mutual SuperMed | Medical Mutual Traditional |
|--------|----------------------|----------------------|---------------------------------------|--|---|
| Single | \$1,073.55 | \$1,176.48 | \$1,778.16 | \$1,230.09 | \$1,764.69 |
| Family | \$2,834.13 | \$3,105.96 | \$4,445.16 | \$3,075.15 | \$4,411.74 |

Source: WHCSD negotiated agreements

As illustrated in **Table 3-7**, the District's could pay between \$1,074 and \$4,445 to employees who choose to not participate in the District's medical plan. Two employees elected to not participate in the District's medical insurance for FY 2007-08. In October 2007, the District disbursed incentive payments totaling \$3,300 to these two employees.

Garfield Heights City Schools (Cuyahoga County) allows eligible employees to elect to not participate in its health insurance program. Employees that opt out receive a lump sum payment of \$2,000 for family coverage and \$900 for single coverage. Employees at Dover City Schools (Tuscarawas County) are also permitted to opt out of the medical insurance program and receive \$2,000 a year. The part-time employees electing not to participate receive a pro-rated amount. Finally, the East Cleveland City School District (Cuyahoga County) offers a \$1,200 annual incentive to employees that opt out of its medical insurance.

Although there are only two employees taking advantage of the opt-out incentive, the District pays employees 25 percent of their respective annual medical premium for opting out of the medical insurance benefit. Given the structure of the District's incentive, an increase in opt-out participants would result in cost increases for WHCSD compared to other districts that offer a similar incentive.

Financial Implication: Implementing a maximum opt-out incentive amount would limit the cost in the future if participation increased. The savings would be dependent on the number of employees that elect not to participate in the District's medical plan. Based on a fixed amount of \$900 for single and \$2,000 for family, and assuming the same level of historical participation, the annual savings would be approximately \$1,500 annually.

R3.11 The District should negotiate a reduction in the number of medical plan options offered to employees and increase the employees' medical premium contribution to a minimum of 10 percent. By negotiating a 10 percent employee contribution for both single and family insurance coverage, the employee contributions would be in line with OEA averages and would help the District better manage future health insurance cost increases.

During the course of the audit, the District reached an agreement with its classified employees to offer only the Medical Mutual SuperMed plan. The change is dependent upon the outcome of negotiations in the certificated agreement.

The District is a member of the Suburban Health Consortium and offers medical insurance to its employees through Kaiser Permanente and Medical Mutual. The District offers two plans through Kaiser Permanente; Plan A for certificated employees and Plan B for classified employees. Kaiser Permanente's Plan A does not include pharmaceutical benefits. The medical plans administered by Medical Mutual are Health Ohio, SuperMed, and Traditional. Only two of the five plans offered, SuperMed and Traditional, are purchased through the consortium and these two health plans are designed solely for WHCSD. WHCSD purchases the remaining three options on its own.

The District pays 95 percent of the total cost of the premium for single or family coverage while the employee contributes the remaining 5 percent. **Table 3-8** compares the monthly single and family medical premiums for the District's medical plans to the OEA average.

Table 3-8: FY 2007-08 Monthly Medical Premiums and Enrollees

| | Kaiser Permanente Plan A | Kaiser Permanente Plan B | Medical Mutual Health Ohio | Medical Mutual SuperMed | Medical Mutual Traditional | OEA Average |
|------------------------------|--------------------------|--------------------------|----------------------------|-------------------------|----------------------------|-------------|
| Total Monthly Premium | | | | | | |
| Single | \$357.85 | \$392.16 | \$592.72 | \$410.03 | \$588.23 | \$414.00 |
| Family | \$944.71 | \$1,035.32 | \$1,481.72 | \$1,025.05 | \$1,470.58 | \$1,050.00 |
| Employee Portion | | | | | | |
| Single | \$17.89 | \$19.60 | \$29.63 | \$20.50 | \$29.41 | \$37.26 |
| Family | \$47.23 | \$51.76 | \$74.08 | \$51.25 | \$73.50 | \$105.00 |
| Employer Portion | | | | | | |
| Single | \$339.96 | \$372.56 | \$563.09 | \$389.53 | \$558.82 | \$376.74 |
| Family | \$897.48 | \$983.56 | \$1,407.64 | \$973.80 | \$1,397.08 | \$945.00 |
| Number of Enrollees | | | | | | |
| Single | 1 | 5 | 9 | 40 | 38 | N/A |
| Family | 13 | 16 | 35 | 86 | 50 | N/A |

Source: WHCSD Treasurer's office and the Ohio Education Association Survey of District and Educational Service Center Health Plans (2008)

As shown in **Table 3-8**, the District offers multiple medical plans to its employees. The monthly premiums for three of the plans are comparable to the OEA average, while two of the plans are more costly. However, enrollment varies significantly between the plans and the two lowest cost plans have the smallest enrollment. Although the monthly premium amounts for Kaiser Plan A, Kaiser Plan B, and Medical Mutual SuperMed are in line with OEA averages, the percent of employee contribution is below the OEA average.

According to OEA, school district employees contribute an average of 9 percent toward the monthly premium for single coverage and 10 percent for family coverage. SERB, in its annual report,³ indicated that the average premiums in the Cleveland area were \$404.45 for single and \$1,044.77 for family – these are similar to the OEA averages shown in **Table 3-8**. In addition, the average percent of premium paid by employees in the region was 8.6 percent for single plans and 8.5 percent for family plans, which is lower than the OEA average but still higher than WHCSD’s contribution rates. Because the employee contribution rates are lower than the OEA and SERB averages, WHCSD experiences higher costs for health insurance benefits and shoulders a greater share of the burden of cost increases. If the District is able to negotiate an increase in the employee share, increases to health insurance premiums will be tempered through a higher degree of cost sharing.

Financial implication: If successfully negotiated in both of the District’s collective bargaining agreements, reducing the number of medical plans available and increasing the employees’ contribution to 10 percent would save the District approximately \$669,400 annually. Increasing only the employee contribution would result in a savings of approximately \$174,400 annually.

R3.12 During future negotiations, WHCSD should consider increasing employee co-pays for physician visits and prescription drugs; implementing a three-tiered prescription plan; requiring employee annual deductibles and cost sharing for hospital visits and outpatient surgery; and increasing annual out of pocket maximums. Implementing these plan changes could help the District lower its medical premium costs.

The benefit levels for the District’s medical plans are generous compared to industry standards. **Table 3-9** compares the District’s benefit levels, specifically the co-pay, prescription drug, and annual deductible levels to national benchmarks.

³ 16th Annual Report on the Cost of Health Insurance in Ohio’s Public Sector (SERB, 2007).

Table 3-9: Healthcare Benefit Levels

| Benefit Levels | WHCSD | Kaiser | | | | | | | | | |
|---|--|--|--|---------------|---------------|-----|-----|-------|-----|-------|---------|
| Co-payments for physician visits ¹ | <p>Medical Mutual: Traditional: \$0 SuperMed Select: \$0 HMO Health Ohio: \$0</p> <p>Kaiser: Plan A: \$0 Plan B: \$0</p> | <p>HMO: 3%: \$5 per visit 20%: \$10 per visit 25%: \$15 per visit 34%: \$20 per visit</p> <p>PPO 2%: \$5 per visit 11%: \$10 per visit 24%: \$15 per visit 35%: \$20 per visit</p> | | | | | | | | | |
| Multi-tier drug plan co-payments | <p>SuperMed Select: Network Generic: \$4 Brand: \$4</p> <p>Non-Network Generic: \$4 Brand: \$4</p> <p>HMO Health Ohio: Co-payments/Network Generic: \$4 Brand: \$4</p> | <p>\$11 generic \$25 preferred \$43 non-preferred \$71 fourth-tier</p> | | | | | | | | | |
| Average Annual Deductible | None of the plans offered have an annual deductible. | <table border="0"> <tr> <td></td> <td style="text-align: center;"><u>Single</u></td> <td style="text-align: center;"><u>Family</u></td> </tr> <tr> <td>HMO</td> <td style="text-align: center;">NSD</td> <td style="text-align: center;">\$759</td> </tr> <tr> <td>PPO</td> <td style="text-align: center;">\$401</td> <td style="text-align: center;">\$1,040</td> </tr> </table> | | <u>Single</u> | <u>Family</u> | HMO | NSD | \$759 | PPO | \$401 | \$1,040 |
| | <u>Single</u> | <u>Family</u> | | | | | | | | | |
| HMO | NSD | \$759 | | | | | | | | | |
| PPO | \$401 | \$1,040 | | | | | | | | | |

Source: WHCSD and Kaiser Foundation Survey

As illustrated in **Table 3-9**, District co-payments and annual deductibles are significantly below the industry standards, which indicate that employees contribute less to their health care costs than national averages. These benefit levels assign more of the cost to the health plan and contribute to the District’s higher premiums (see **R3.11**)

In *Health Care Cost Containment* (2004), GFOA offers several recommendations for limiting the costs of medical insurance. GFOA notes that organizations can reduce the cost of health insurance by making incremental changes that include adjusting co-payment and co-insurance levels to influence individual behavior with respect to network/out-of-network services, brand/generic prescriptions and over-the-counter medication, inpatient/outpatient services, and other decisions. GFOA recommends periodic re-bidding of the health care plan, setting appropriate compensation for insurance brokers, and ensuring that provider interests are aligned with the organization. Organizations should consider available quality measures for the effectiveness of treatment outcomes and costs.

According to GFOA, organizations may realize savings by sharing certain costs with employees. Cost-sharing can be implemented through joint payment of premiums, co-payments, and co-insurance. Cost-sharing initiatives can be augmented through the use of tax-advantaged savings accounts that allow employees to save and pay for health costs or future retiree health insurance.

As health premiums continue to rise, the District could adjust benefit levels to offset or minimize future benefit expenditure increases. While it is difficult to quantify the cost savings resulting from changes in plan design within the scope of the performance audit, the District, with assistance from its health insurance consultant and its internal health insurance committee (**R3.9**) should develop a plan design that is economical yet provides benefit levels that meet market standards.

Collective Bargaining Agreements

R3.13 WHCSD should develop and implement a sick leave abuse policy. The sick leave abuse policy should clearly define what WHCSD will consider a pattern of abuse and should indicate that if an employee engages in a pattern of abuse, he or she may be subject to discipline. The policy would help ensure that employees are not abusing leave and increase productivity within the District.

During the course of the audit, the District negotiated stricter sick leave usage guidelines in its classified agreement.

The District's employees receive sick leave days to be used in the event of illness or injury for self or a member of the immediate family. Sick leave can also be used in the event of the death of an immediate family member. However, the District does not have a policy on sick leave abuse. WHCSD does not require a doctor's excuse for excessive use of sick leave days. Instead, it requires its employees to complete a leave form and submit it to the Treasurer's office.

According to the article, *Sick Leave Abuse: A Chronic Workplace Ill?* (American Society for Public Administration Times, April 2002), determining if and why employees exploit leave policies is important. Just as an employer analyzes turnover, organizations should also look at sick leave trends. Doing so would help determine if sick leave is higher in one department, or under a particular supervisor, and if workplace policies and procedures affect absences. Finding the root causes of the problem helps address core issues. Methods for monitoring sick leave abuse vary from one organization to another, but the following explains common guidelines all employers can follow to manage sick leave effectively.

- Recognize the problem and intervene early before it escalates. Managers need to enforce leave policies and take appropriate action.
- Find out why the employee is abusing leave. Talk to employees who are abusing leave and see if their behavior stems from personal problems.
- Learn to say “No.” Employers should not let employees get away with abusing leave policies.
- Use procedures, regulations, practices, and knowledge to benefit management as well as the employee.
- Document everything to learn from past mistakes.

Sick leave abuse is costly, both in direct and indirect costs. Such costs include overtime pay for other employees, hiring substitutes, missed deadlines, sinking morale, and lower productivity. High sick leave use can result in decreased productivity and cause the District to incur additional substitute costs.

Board Governance

R3.14 The Board should engage in a self-evaluation process as set forth in its operations manual. These evaluations are essential for gauging overall performance, such as meeting past and future goals. In addition, evaluations could assist the Board in improving internal communication, strengthening its role as the District’s governing body, and enhancing its ability to provide overall direction to the Superintendent and Treasurer.

As of July 2008, the Board had not conducted an evaluation of its performance. According to the policy manual, the Board is to annually plan and complete an evaluation of its functioning as a Board. The evaluation is to review the relationship of the Board and Board responsibilities.

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. Some appointed board members view reappointment as an affirmation that they are doing a good job. While the public can provide informal evaluation of a board, it cannot provide the kind of formal evaluation a school board really needs. It is a rare community member who understands the roles and responsibilities of a board and measures 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 a 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 as a whole compare and discuss results; and
- The Board should be evaluated as a whole, not as individuals.

Conducting self-evaluations would allow the Board to monitor its own performance and set goals to strengthen the responsibilities it has to the District. With internal issues that may arise on any school board, such as personality conflicts, leadership issues and communication problems, a self-evaluation may allow the Board to find effective ways to work together and improve its service to the District.

R3.15 The District should take advantage of web-based training opportunities offered at no cost by the Ohio School Board Association (OSBA) to Board members. These online training sessions focus on specific topics and may be helpful for all members of the WHCSD Board. The additional training, which includes seminars on *Communicating as a Board* and *Understanding the Five-Year Forecast*, will help Board members understand their roles and responsibilities.

According to the Treasurer, each Board member has received a manual published by OSBA, which includes governance laws, expectations of board members, and State regulations. Additionally, Board members have engaged in a number of training opportunities offered by OSBA and the National School Board Association. For instance, all Board members attended the new board member training and orientation, and the Board President attended a training session for board presidents. In addition, a staff person from OSBA led a one-day retreat for the Board.

Although the District has policies that establish responsibilities for the Board, the members of the Board have been unclear at times as to their role in setting policy, which inhibits the appointed administrators in completion of their responsibilities. According to *Board Leadership Development* (OSBA, 2007), leadership starts with skilled and well-informed school board members and administrators. OSBA offers a variety of training courses and seminars for board members. Many are online and available free of charge. These online sessions vary in length from ten minutes to more than an hour. The following are examples of the free training offered by OSBA that could benefit the Board:

- Candidate: Roles and Responsibilities of a School Board Member;
- Let's Talk about Micromanagement;
- Speaking One Voice – Communicating as a Board; and
- Understanding the Five-Year Forecast.

Do You Want to Serve Your Community and its Children? (OSBA, 2007) outlines the responsibilities of school boards. Board members make decisions on a wide range of issues, such as hiring and evaluating a superintendent and treasurer, setting district policy, planning student services, goal-setting and long-range planning, developing curriculum, establishing budgets, and creating community relations programs. The role and function of board members is often misinterpreted by the public, and in some cases, by board members themselves. The board is a policy-making body and members are the chief advisors to the superintendent on community attitudes. Board members do not manage the day-to-day operations of a school district; they see to it that the system is managed well by professionals.

Additional leadership training will help increase the Board's effectiveness. WHCSD has taken advantage of traditional training opportunities offered by OSBA and NSBA. However, the web-based training courses offered by OSBA target specific topics and allow Board members the opportunity to engage in training activities at no cost to the District. By making Board members aware of these opportunities, the District can encourage new and veteran Board members to take advantage of professional development activities without incurring additional costs.

Special Education

R3.16 WHCSD should evaluate opportunities and strategies for reducing direct special education expenditures to a level comparable to the surrounding district average. These should include, at a minimum, ongoing assessments of staffing needs and services, potential benefits of partnering with other districts for the provision of specialized instructional programs, and evaluation of the contracted services provided through the Education Service Center (ESC) of Cuyahoga County.

In FY 2007-08, WHCSD had 37.0 FTE special education teachers to serve 341 special needs students. The District identifies special needs students through multi-factored evaluations. Once students are identified as special needs, the District compiles an Individualized Education Plan (IEP) that outlines the services the student will receive from the District. The Director of Special Education expressed concern that the timeline used by psychologists to complete the evaluations to identify students as special needs overlapped with the State requirements to receive special education funding. During the course of the audit, the District discussed transferring the supervision of its psychologists from the Director of Pupil Services to the Director of Special Education but no change in the reporting structure was implemented. However, efforts have been made to improve the coordination of assessments and IEP development.

Table 3-10 compares FY 2006-07 special education expenditures per student at WHCSD to the peer average, and the average of three surrounding districts.

Table 3-10: FY 2006-07 Special Education Expenditures ¹

| | WHCSD | Peer Average | Variance | Surrounding Districts ² | Variance |
|--|-----------------|-----------------|-----------------|------------------------------------|----------------|
| Special Education Students | 323 | 194 | 129 | 467 | (144) |
| Special Education Students as % of Total Students | 9.93% | 8.08% | 1.85% | 9.33% | 0.60% |
| % of Special Education Students Mainstreamed into Regular Classrooms | 68.11% | 77.86% | (9.75%) | 69.62% | (1.51%) |
| | | | | | |
| Direct Special Education Costs Per Student ² | \$14,939 | \$6,234 | \$8,705 | \$7,947 | \$6,992 |
| Special Education Portion of Support Services Per Student | \$4,778 | \$2,589 | \$2,190 | \$3,859 | \$919 |
| Special Education Portion of Regular Instruction Per Student | \$4,440 | \$3,229 | \$1,211 | \$3,077 | \$1,363 |
| | | | | | |
| Total Special Education Expenditures | \$7,463,466 | \$2,294,275 | \$5,169,191 | \$6,452,656 | \$1,010,810 |
| Special Education Costs Per Special Education Student | \$23,107 | \$11,857 | \$11,250 | \$13,817 | \$9,289 |

Source: ODE's FY 2006-07 Special Education Fiscal Accountability Report

¹ Includes expenditures from General fund (001), Emergency Levy fund (016), and Disadvantaged Pupil Impact Aid fund (447)

² Surrounding districts include East Cleveland CSD, Garfield Heights CSD, and Maple Heights CSD.

³ Excludes transportation expenditures as it is examined in another section of the performance audit

As illustrated in **Table 3-10**, WHCSD spent 95 percent more per special needs student than the peer average and 67 percent more than the surrounding districts. Direct special education cost per student comprised the most significant portion of this variance. Expenditures in this category include services directly related to special education pupils, such as special education instruction (teachers), aides, and attendants. When examining the allocation of direct special education expenditures, WHCSD's high compensation (**R3.6**) and the number of teaching aides (**R3.3**) appear to be the primary areas of difference when compared to the peer averages.

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 at the lowest cost. Individualized instruction is essential for disabled students and districts need to develop approaches for handling reductions in funds and staff while continuing to meet the needs of the special population.

The Council of the District of Columbia in Washington D.C. recognized the need for improvement in its special education services. As part of a collaborative effort, issues

within the special education program were identified and proposed actions and timelines for addressing the issues were established. The *Action Plan for Special Education Reform* (2008) involves specific procedures for the District of Columbia Public Schools to implement. These procedures include: requiring employees to participate in training on special education to reduce the number of inappropriate referrals; requiring principals to provide monthly reports on special education data and share their success and challenges with one another to improve performance; and developing building level committees to identify and plan alternative instructional strategies for students who experience learning or behavior problems in the classroom. WHCSD could use aspects of this Plan to guide its actions in implementing leading practices within the special education program.

Many special education costs are driven by State regulations and federal law. 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 their *Special Report of the 2003 Joint Annual Conference* (2004) discussed methods for controlling special education costs. Examples of methods that 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;
- Increasing curricular flexibility;
- Hiring flexible teachers;
- Complying with state and federal regulations;
- Looking for prevention interventions; and
- Providing high quality early education programs.

While WHCSD has implemented some of these measures, it should continue to explore these and other strategies to ensure its special education services are cost effective and provide appropriate educational services to its special needs students. This could include the development of a special education plan, similar to District of Columbia Public Schools, with specific issues, measurable goals, timelines, and targeted savings for the special education program.

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 IEPs can improve program efficiency of services provided. Determining the types of disabled children within the District, identifying the significant services that drive special education expenditures and evaluating options for providing these services may help the District reduce its special education costs to a level comparable to the surrounding districts. Additionally, WHCSD should consider providing additional training on IEP development, service models, and special education funding to those employees directly involved in providing services to special needs students.

Financial Implication: If WHCSD reduced direct special education expenditures per student by 5 percent each year for the five-year forecast period, it would save the District \$241,000 annually based on FY 2006-07 expenditures and the number of special needs students. These reductions would still leave the District higher expenditures than both the peer and surrounding districts, but would begin to reduce the current wide variances.

Financial Implications Summary

The following table represents a summary of estimated implementation costs and annual cost savings identified in this section of the report. The financial implications are divided into two groups: those that are not, and those that are subject to negotiation. Implementation of those recommendations subject to negotiation requires agreement from the District's bargaining unit.

Table 3-11: Summary of the Financial Implications for Human Resources

| Recommendations Not Subject to Negotiation | | | |
|--|-------------------------------|--------------|---------------------|
| Recommendation | One-time Implementation Costs | Annual Costs | Annual Cost Savings |
| R3.1 Eliminate 7.0 central administrator FTEs | | | \$725,000 |
| R3.2 Eliminate 7.0 office/clerical FTEs Implement a substitute calling system | \$900 | \$300 | \$351,000 |
| R3.3 Eliminate 17.0 teaching aide FTEs | | | \$563,000 |
| R3.7 Eliminate retirement benefit | | | \$173,000 |
| R3.8 Participate in BWC Programs | | | \$53,000 |
| R3.16 Reduce direct special education expenditures by 5 percent | | | \$241,000 |
| Total – Recommendations not subject to negotiation | \$900 | \$300 | \$2,106,000 |
| Recommendations Subject to Negotiation | | | |
| R3.6 Reduce future salary and wage expenditures | | | \$509,000 |
| R3.10 Negotiate fixed amount for insurance opt out incentive | | | \$1,500 |
| R3.11 Reduction in medical plans and increase in employee share of monthly premium ¹ | | | \$669,400 |
| Total – Recommendations subject to negotiation | | | \$1,179,900 |
| Total Estimated Savings | \$900 | \$300 | \$3,285,900 |

Source: AOS Recommendations

Note: The financial implications summarized in **Tables 3-11** are presented on an individual basis. The magnitude of cost savings associated with individual recommendations could be affected or offset by the implementation of other interrelated recommendations. Therefore, the actual cost savings, when compared to estimated cost savings, could vary depending on the implementation of the various recommendations.

¹ If the District is not successful in making changes to the number of health plans but is successful in increasing the employee contribution percent, the savings will be \$174,400.

Facilities

Background

This section of the performance audit assesses facility planning and maintenance, custodial and maintenance staffing, operations, and expenditures, and building utilization in the Warrensville Heights City School District's (WHCSD or District). WHCSD's operations are evaluated against leading practices and operational standards identified by the American School and University Magazine (AS&U), the National Center for Education Statistics (NCES), FacilitiesNet, and selected peer school districts.¹ Comparisons were made for the purpose of developing recommendations to improve efficiencies and business practices.

Summary of Operations

In FY 2007-08, WHCSD operated six schools: one high school (grades 9 through 12), one middle school (grades 7 and 8), and four elementary schools (three housing grades pre-school through 4, and one housing grades 5 and 6). The District also operates a bus garage and custodial equipment storage building adjacent to the middle school; however, these are not cleaned by custodial staff. In addition, the District has a separate administration building, and adjacent to it, two garages which WHCSD uses for storage.

The District also operates a Recreation Center that is attached to the high school. Funding for the Recreation Center comes from a five year operating levy and the District's General Fund. The original recreation facility was opened in the late 1970s or early 1980s, although District personnel could not identify the original opening date for the facility. The original recreation center consisted of an outdoor pool and separate building at the middle school.² Under its 1999 bond issue, WHCSD built a new facility which is attached to its high school. The Recreation Center operates at a loss and has been subsidized by the General Fund, on average, about \$90,000 annually³ for its operations. In addition, there are an estimated \$100,000 in costs for custodial and security employees that work in the Recreation Center but are directly paid out of the General Fund (see **R4.8**).

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

² The Middle School pool was filled in during the 1999 construction project and the Middle School recreation center building is used for special education classes.

³ Based on operating losses in FY 2004-05 through FY 2006-07; see **Table 4-8** for additional revenue and expenditure detail.

Status of District Facilities

In 1999, District voters passed a \$26 million bond issue for school improvements and renovations, which began in 2000. At the same time the District applied to participate in the Ohio School Facilities Commission (OSFC) Expedited Local Partnership Program (ELPP) under which its expenses for renovations could be counted as part of its local match for later OSFC projects under certain conditions. From 2001 to 2003, OSFC and the District worked to design a mutually agreeable ELPP district-wide master plan that would comprise both the District's renovation efforts and a second phase of the plan (funded largely by OSFC).

In 2003, the District accepted the final master plan which was approved by OSFC and the Controlling Board. The total cost for implementing the master plan was estimated to be approximately \$54.7 million. The first phase of the project, which called for renovations to John Dewey and Westwood elementary schools, a partial renovation at Randallwood elementary school, and an addition and partial renovation at Warrensville Heights High School was accomplished between 2000-2004 and fully funded through locally generated revenues. Also in 2003, the second part of the plan was approved for funding by OSFC. However, between 2004, when documents were to be submitted for the ELPP credit, and 2005, administrative turnover resulted in lost documentation and the ELPP close-out had to be reinitiated by OSFC.

The second phase of the plan, which WHCSD may enter in 2009, calls for the District to retain its current PK-4, 5 and 6, 7 and 8, and 9-12 configuration. John Dewey and Westwood will receive additional renovations and additions and house grades PK-4. Randalwood will receive additional renovations and house grades 5 and 6. A new middle school will be constructed to house 754 students in grade 6-8 while the high school (which has already been renovated and expanded) will house grades 9-12. The plan also calls for the District to abandon Eastwood Elementary School and the existing Warrensville Heights Middle School.

To receive its ELPP credit and move forward on the second building phase, WHCSD was required to complete maintenance plans for each building and finalize its credit close out agreement.⁴ The District agreed, in May of 2005, to complete these two items by October of that year. At that time, OSFC estimated that WHCSD had made \$16.8 million in creditable expenditures. Not all of WHCSD's local expenditures can be credited, though, because some renovations were made to buildings that are to be abandoned under the plan.

In April 2008, OSFC contacted WHCSD regarding participation in the Classroom Facilities Assistance Program (CFAP). The District declined to be fast tracked into the program, determining instead that it wished to begin participation in 2009. It plans to seek additional

⁴ As of November 2008, the Business Manager reported that the District's documentation for the credit had been accepted by OSFC. The Business Manager is in the process of hiring a maintenance plan advisor to complete the District's maintenance plans. The funds for this will come from WHCSD's permanent improvement levy.

stakeholder feedback on its original plan and work with OSFC to amend the plan to better reflect the desires of the community.

Staffing

The care and maintenance of WHCSD's buildings and grounds are the responsibility of the Buildings and Grounds Department (custodial operations) and Maintenance Department (maintenance operations).⁵ The Supervisor of Buildings and Grounds reports to the Business Manager and is responsible for district-wide maintenance services including inspection, servicing, and repair of the buildings, grounds, equipment, and furnishings. The Business Manager indicated that the District generally tries to use the Coordinator of Maintenance/HVAC to complete as much of the maintenance work as possible and then contract out the remaining work. Head custodians are responsible for minor maintenance duties (e.g. changing light bulbs, painting, changing filters, and simple repairs) as well as routine and deep cleaning of the District's school and administration buildings. The grounds keeping staff is responsible for maintaining the District's 76 acres of land.

Table 4-1 illustrates the maintenance and operations (M & O) staffing levels, and the number of FTE employees responsible for maintaining WHCSD's facilities.

Table 4-1: WHCSD FY 2007-08 M & O Staffing Levels

| Classification | Number of Positions | FTEs |
|--|---------------------|-----------|
| Supervisor of Buildings and Grounds ¹ | 1 | 1 |
| Administration | 1 | 1 |
| Maintenance ² | 1 | 1 |
| Head Custodian | 5 | 5 |
| Custodian | 16 | 16 |
| Total Custodians | 21 | 21 |
| Groundskeeper | 2 | 2 |
| Total M & O Personnel | 25 | 25 |

Source: District staffing records

¹ The Supervisor of Building and Grounds is on extended leave.

² The formal job title for the maintenance position is Coordinator of Maintenance/Heating, Ventilation, and Air Conditioning (HVAC). The Coordinator of Maintenance/HVAC indicated that he spends approximately 50 percent of his time on administrative responsibilities due to the absence of the Supervisor of Buildings and Grounds.

Key statistics related to FY 2007-08 maintenance and operations are presented in **Table 4-2**. Results from the 36th *Annual Maintenance & Operations Cost Study* (AS&U, 2007) and averages

⁵ For purposes of this report, the two departments will be referred to collectively as the Maintenance and Operations Department or M&O.

based on the AS&U data are also presented for comparison purposes.⁶ In addition, statistics from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) are used as performance benchmarks.

Table 4-2: WHCSD Key Statistics and Indicators FY 2007-08

| | |
|---|----------------|
| Number of School Buildings | 6 |
| Elementary Schools | 4 |
| Middle School | 1 |
| High School | 1 |
| Total Square Feet Cleaned | 499,200 |
| Elementary Schools (9.5 FTEs) | 190,357 |
| Middle School (4.0 FTEs) | 95,705 |
| High School (7.0 FTEs) | 205,718 |
| Administration Building (0.5 FTEs) | 7,420 |
| WHCSD Square Footage per Custodial FTE (21 FTEs) | 23,771 |
| NCES National Average | 29,500 |
| WHCSD Square Footage Maintained | 505,000 |
| WHCSD Square Footage per Maintenance FTE (1 FTE)¹ | 505,000 |
| 5-Year Average AS&U Annual Cost Survey National Median for Maintenance | 92,000 |
| WHCSD Acres Maintained Groundskeeping | 76 |
| WHCSD Acres per Grounds keeper FTE | 38 |
| 5-Year Average AS&U Annual Cost Survey for Groundskeepers | 42 |

Source: WHCSD, AS&U, and NCES.

¹ Includes bus garage square footage

According to **Table 4-2**, District custodians clean 19 percent less square footage than the NCES national average. Although the District employs only 1.0 maintenance FTE for its 505,000 square feet, this individual serves largely as a contract manager as the majority of maintenance work is contracted out. According to the Business Manager, WHCSD's facilities are in good condition and interviews with school principals did not indicate significant problems with facility equipment. The contracted portion of the maintenance function cost approximately \$483,000 in FY 2006-07 for repair and maintenance services.

Financial Data

Table 4-3 illustrates the District's General Fund expenditures to maintain and operate its facilities.

⁶ AS&U's 32nd, 33rd, 34th, 35th, 36th Maintenance and Operations Cost Studies are included in this average. AS&U data is the result of detailed survey of business officials at school districts across the nation that contains information on staffing levels, workloads, facility expenditures, and salaries. The report provides industry standards in the form of national medians in broad categories based on student enrollment.

Table 4-3: WHCSD Maintenance and Operations Expenditures, 3 Year History

| Line Items | FY 2004-05 | FY 2005-06 | Percent Change | FY 2006-07 | % Change |
|--|--------------------|--------------------|----------------|--------------------|-------------|
| Salaries/Benefits | \$1,499,842 | \$1,959,190 | 30.6% | \$2,059,453 | 5.1% |
| Purchased Services (Excluding Utilities) | \$186,823 | \$247,059 | 32.2% | \$492,751 | 99.4% |
| Utilities | \$934,434 | \$1,173,377 | 25.6% | \$1,000,919 | (14.7%) |
| Materials/Supplies | \$269,621 | \$316,340 | 17.3% | \$239,288 | (24.4%) |
| Capital Outlay | \$21,060 | \$1,142 | (94.6%) | \$5,300 | 364.3% |
| Other | \$1,422 | \$173 | (87.8%) | \$5,573 | 3121.5% |
| Total General Fund | \$2,913,202 | \$3,697,281 | 26.9% | \$3,803,284 | 2.9% |

Source: WHCSD financial records (4502 Statements P and Q)

Overall, the District's maintenance and operations expenditures increased by 30.1 percent from FY 2004-05 to FY 2006-07. From the District's financial information, the increases in salaries and benefits are the result of increases in custodial salaries (accounting for about \$200,000) and maintenance overtime (about \$20,000). In addition, the increases in purchased services are attributed to object code 423 (building repairs) and represent increased levels of contracted work on the District's facilities. Due to turnover in key administrative positions, additional details could not be provided by the District.

Table 4-4 compares WHCSD's FY 2006-07 General Fund custodial and maintenance related expenditures per square foot to the peer average and to the AS&U national benchmarks for that year.⁷

Table 4-4: FY 2006-07 M&O Expenditures per Square Foot Comparison

| Line Items | WHCSD | Peer District | Difference | AS&U Median | Difference |
|---------------------------|---------------|---------------|--------------|---------------|--------------|
| Salaries/Benefits | \$3.24 | \$2.42 | 33.9% | \$2.56 | 26.6% |
| Purchased Services | \$0.96 | \$0.53 | 81.1% | \$0.01 | 9500.0% |
| Utilities | \$1.98 | \$1.18 | 67.8% | \$1.71 | 15.8% |
| Materials/Supplies | \$0.46 | \$0.36 | 27.8% | \$0.30 | 53.3% |
| Capital Outlay | \$0.00 | \$0.11 | (100.0%) | \$0.02 | (100.0%) |
| Miscellaneous | \$0.00 | \$0.03 | (100.0%) | \$0.49 | (100.0%) |
| Total General Fund | \$6.64 | \$4.63 | 43.6% | \$5.09 | 30.5% |
| Total All Funds | \$6.85 | \$5.14 | 33.3% | \$5.09 | 34.6% |

Source: WHCSD and peer district 4502 and AS&U Annual Maintenance and Operations Cost Study

Note: AS&U only provides median costs for outside labor under purchased services line item.

⁷ The District categorized about \$500,000 in FY 2005-06 as security expenditures and about \$600,000 in FY 2006-07. Of this, \$173,500 and \$244,913 was spent on salaries in FY 2005-06 and 2006-07, respectively. See **human resources** for additional information. These expenditures have been excluded from the table.

WHCSD's maintenance and operations function is not cost efficient when compared to the peer districts and the AS&U median. As shown in **Table 4-4**, total General Fund maintenance and operations costs per square foot were 43.6 percent higher than the peer average and 30.5 percent higher than the national median. Major variances include salaries and benefits, which are 33.9 to 26.6 percent higher than the peer and national averages, respectively. High overtime expenditures and low productivity contribute to the high salary and benefit costs (see **R4.2**). Also, WHCSD provides custodial and maintenance services for the Recreation Center but does not charge back for time or materials. Other causes of WHCSD's high salaries and benefit expenditures per square foot are its high classified staff base salaries (see **human resources**).

Purchased services also greatly exceed the peer and national median costs. The high costs of purchased services at WHCSD reflect its practice of contracting for maintenance services rather than employing in-house staff. However, because **WHCSD** has no preventive maintenance or capital plans, the efficiency or effectiveness of this practice could not be evaluated (see **R4.3**). Utilities costs also exceed the peers and national median (see **R4.7**). Finally, material and supply expenditures are almost twice those of the peers. While this is, in part, related to the upkeep of the Recreation Center, poor controls over supplies and materials may lead to inefficient or inappropriate use (see **R4.4**).

Audit Objectives for the Facilities Section

The following questions were used to evaluate WHCSD's facilities management function:

- How do the District's M&O organization and staffing levels compare to the peers and leading practices?
- How do the District's M&O practices compare to the peers and leading organizations?
- Does the M&O department have written operational procedures, training and performance standards that meet leading practices?
- Are District energy management practices comparable to leading practices?
- How effectively is the District planning for and using its facilities?
- Does the District have an effective and equitable system for managing maintenance needs?
- How cost-effectively is the District's Recreation Center operated and could it become self-supporting?

Recommendations

Staffing

R4.1 WHCSD should eliminate 4.0 custodial staffing FTEs to bring its productivity in line with average national cleaning standards for square footage cleaned per custodian. In order to achieve this benchmark, the District may need to review its custodial manual and prioritize its cleaning tasks or reduce the frequency of some non-essential cleaning steps. In addition, the District should provide annual training to ensure custodians use the most effective and efficient cleaning methods.

WHCSD custodians clean an average of 23,771 square feet per FTE custodian, which is 19.4 percent less than the NCES benchmark of 29,500 square foot per custodian. Although the District has a comprehensive custodial manual that describes daily tasks, a cursory review of the material indicated that it may contain non-essential steps or items which could be done on a less frequent basis. Furthermore, although the District provides training for custodians, the training program does not focus on efficient cleaning methods to reduce the time it takes to complete specific tasks. Finally, the District has not developed staffing plans or expected cleaning efficiency levels. Building walk-throughs, however, found the buildings to be clean and well maintained and building principals were pleased with the condition of their facilities. **Table 4-5** shows the District's custodial staffing by building and a comparison to the national benchmark.

Table 4-5: WHCSD Custodial Staffing Detail

| Building | Sq. Ft. | FTEs | Sq Ft. per FTE | FTEs Above/ (Below) Benchmark |
|-------------------------|----------------|-----------|----------------|-------------------------------------|
| Elementary Schools | 190,357 | 9.5 | 20,038 | 3.0 |
| Middle School | 95,705 | 4.0 | 23,926 | 0.8 |
| High School | 205,718 | 7.0 | 29,388 | 0 |
| Administration Building | 7,420 | 0.5 | 14,840 | 0.3 |
| Total/Average | 499,200 | 21 | 23,771 | 4.1 |

Based on the NCES benchmark, WHCSD is overstaffed by 4.0 custodial FTEs. In order to achieve staffing more consistent with the benchmark, the application of more streamlined cleaning protocols and regular training may be required.

The *Custodial Methods and Procedures Manual* (Association of School Board Officials International, 2000) recommends an updated custodial and maintenance procedural manual that encompasses current cleaning processes utilized by the District's custodial operations, and incorporates standards to ensure appropriate staffing levels that are updated to reflect the current environment. *The Science of Cleaning* (Trombetta, n.d.)

recommends cleaning professionals consider their occupation a science and evaluate how they perform each cleaning process and the tools they use. WHCSD could use the International Sanitary Supply Association recommended cleaning times to re-evaluate its 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. Likewise, APPA: The Association of Higher Education Facilities Officers provides a self analysis guide for custodial operations to help building administrators improve productivity. These tools, as well as working with high performing school districts, will help WHCSD improve its custodial efficiency while retaining its effectiveness.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), preparing staff to get their work done properly, efficiently, and safely is cost-effective in the long run. Training should encompass the following areas:

- Orientation of the organization's facilities;
- Orientation of the person's work area;
- Equipment instructions;
- Task-oriented lessons;
- Expectations; and
- Evaluation information.

21st Century Staffing (FacilitiesNet, 2002) notes that training is one of the most important ingredients for developing and maintaining an effective housekeeping work force because it improves customer satisfaction and employee morale, which in turn leads to less risk for costly waste and abuse.

Through a reduction of 4.0 FTE custodians, WHCSD can improve its custodial efficiency and reduce its operational costs. However, it should review its custodial and maintenance procedures manual and enhance the training and coordination of its custodial staff to ensure that service quality does not suffer.

Financial Implication: If the District reduced 4.0 FTE custodians, it would save approximately \$164,000 in salaries and benefits.⁸

⁸ The average of the lowest salaries for custodians is \$29,207. Applying benefits at 40 percent of salaries yields a per-position cost of about \$41,000.

R4.2 WHCSD should reduce its maintenance and operations overtime to the recommended benchmark of 2 percent of salary expenditures. To accomplish this, the District should terminate the practice of conducting daily building checks. As a component of its next round of facility upgrades, it should invest in a remote building monitoring system. In the interim, it should rely on building custodians to complete the checks during regular work hours and seek to limit the number of checks during weekends and holidays. Finally, the M&O Department should charge back all overtime for functions dedicated to the Recreation Center and outside groups that contract for use of the buildings. This cost should be included as a component of the facility rental cost or usage fee.

During the audit, the District began checking buildings only on days with a temperature below 50 degrees and has reduced overtime expenses. In May 2009, the Board of Education reviewed a new rental fee schedule for FY 2009-10, which includes custodial fees.

The District's FY 2006-07 maintenance and operations overtime expenditures were approximately \$83,360 and overtime as a percent of salary expenditures was 8.9 percent. The high percentage of overtime was attributed to building checks conducted by the Coordinator of Maintenance/HVAC and the use of the high school and Recreation Center for tournaments and other activities. The Coordinator of Maintenance/HVAC checks every building every day year-round for maintenance problems. Other situations when custodial and maintenance overtime may be needed are after-school events, seasonal grounds keeping projects such as mowing and preparing fields, and snow-plowing. Furthermore, custodial personnel work overtime for functions at the Recreation Center which is not charged back to that facility's operations. Finally, the Business Manager noted that understaffing required the District's custodians to work overtime.

Best Practices: Maximizing Maintenance (Facilities-Net, 2003) recommends maintenance and custodial departments restrict overtime expenditures to less than 2 percent of total salaries. This can be accomplished through improved work processes (work flow) and scheduling (planning), and the application of preventive maintenance processes and work order systems.

In order to achieve the benchmark of overtime at less than 2 percent of salaries, WHCSD would need to overhaul its practices and aggressively manage employee time. It might find that additional overtime is needed to accommodate the absence of the Supervisor of Buildings and Ground, but should monitor overtime and seek to reduce it throughout the year.

Financial Implication: If the District was able to reduce maintenance and operations' overtime to 2 percent of salaries, it could save approximately \$64,500.

Facility Planning and Maintenance

R4.3 While working on its facilities master plan, WHCSD should develop and implement a capital improvement plan and building maintenance plans consistent with the requirements of the ELPP. Its capital and building plans should include the following:

- **A formal preventative maintenance (PM) program that addresses all routine, cyclical, and planned building maintenance functions.**
- **A capital improvement plan that covers a five-year span and is reviewed annually. It should include a project categorization and prioritization system that provides management with a breakdown between maintenance tasks and capital projects.**
- **Facilities audits should be conducted prior to completion of the PM and capital improvement plans and annually thereafter.**

Formally documenting processes will help ensure capital improvement issues are addressed and all safety and health guidelines are met. Likewise, formal planning for maintenance and repairs will ensure that newly renovated buildings and systems do not fall into disrepair. When it completes the master plan, the District should ensure it contains enrollment projections that are updated annually, its five year capital improvement plan and a formal PM schedule, and annual building audits to ensure this information is maintained and up-to-date. Through improved planning and management of its facility maintenance program, WHCSD can better control costs in this area.

WHCSD does not have a capital plan or preventive maintenance plan and has not performed formal maintenance on its buildings since the completion of renovations. Facilities management representatives stated there was no need to develop a capital improvement plan at this time because the District is preparing to start the second phase of its OSFC project, although the Superintendent indicated she had asked that a capital plan be developed. Also no PM plans or building maintenance plans have been completed as required under the ELPP. Instead, the Coordinator of Maintenance/HVAC relies on his professional experience to determine when repair work needs to be completed. The Coordinator stated that he walks the buildings on a daily basis to look for problem areas and has tried to train custodial workers to identify problem areas.

As part of the ELPP, WHCSD was required to develop building maintenance plans. However, the District has not completed these plans and had no examples on hand. While building conditions were generally good and District representatives stated the facilities

were in good condition, maintenance costs, the majority of which are outsourced, are very high. In comparison to peers, WHCSD's purchased service cost per square foot was \$0.96, or almost twice the peer average.

The *Planning Guide for Maintaining School Facilities* (NCES) indicates that maintenance entails much more than just fixing broken equipment. A well-designed facility management system generally encompasses four categories of maintenance: emergency (responsive), routine, preventive, and predictive maintenance. Preventive maintenance is scheduled work on equipment and predictive maintenance is forecasting the failure of equipment based on age, user demand, and performance measures. Preventive maintenance includes periodic inspections, lubrication, calibrations, and equipment replacement. Effective preventive maintenance is a planned approach to avoid equipment breakdowns and prevent minor problems from escalating into major ones. By contrast, emergency and corrective maintenance occur when equipment fails, typically requiring more time and resources to correct problems.

According to *Preventive Maintenance for Local Government Buildings* (Minnesota Office of the Legislative Auditor, 2000), local jurisdictions should include preventive maintenance along with other maintenance projects in capital improvement plans. Guidelines included in the publication suggest the following seven best practices:

- Inventory building components and assess their conditions;
- Build the capacity for ranking maintenance projects and evaluating their costs;
- Plan strategically for preventive maintenance in the long and short term;
- Structure a framework for operating a preventive maintenance program;
- Use tools to optimize preventive maintenance programs;
- Advance the competence of maintenance workers and managers; and
- Involve appropriate maintenance personnel in decision making and in communicating buildings' needs.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) recommends that all districts have a preventive maintenance program. Preventive maintenance should focus on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure. Many school districts, like WHCSD, practice "breakdown maintenance," whereby maintenance problems are fixed as they occur. This method often defers major repairs and allows damage to compound over time. Preventive maintenance, on the other hand, focuses on regularly scheduled equipment maintenance to prevent sudden unexpected equipment failure. A well-designed facility management system generally encompasses four categories of maintenance: emergency (or response) maintenance, routine maintenance, preventive maintenance, and predictive maintenance.

NCES indicates that districts need to decide on the frequency and type of inspections needed for the items (structures, equipment, and systems) that are to be included in the preventive maintenance plan. Usually, equipment manufacturer's manuals offer guidelines on the frequency of preventive maintenance and list the items that require maintenance. Also, many manufactures assist customers in setting up preventive maintenance plans.

NCES also recommends that facility audits be a routine part of the facilities maintenance program. A facility audit is a comprehensive review of a school district's buildings. The audits are a standard method for establishing a baseline of information about the components, policies, and procedures of existing facilities. Facility audits are important because they help planners, managers, and staff know the condition of the facilities, service history, and maintenance needs. The audits rely on facts, not guesswork, to establish plans for maintaining and improving school facilities and allow in-depth analyses of product life-cycles to occur on a routine basis. Once initiated, audits must be performed on a regular basis (e.g., annually) because conditions change constantly. Further, by integrating the findings of annual audits over time, planners can uncover information on the impact 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.

Active planning for preventive maintenance should occur at the same time as planning for other maintenance; it is needed both for the long-term (at least a three-year outlook) and the short-term (the upcoming year). Long-term planning includes a long-range facility plan and a capital improvement program. Short-term planning includes annual work plans and annual budgets. As part of facilities planning, it is also important for the District to regularly update analyze enrollment projections, functional capacity and utilization to have accurate and reliable data to manage facilities.

Developing a preventive maintenance plan and incorporating it into a capital improvement plan would help the District anticipate and identify needed facility equipment repairs, prioritize projects and related funding, and communicate its facility needs to the public. This may help it lower its maintenance costs to a level more comparable to the peers as preventive and scheduled work would occur at appropriate timeframes and breakdown maintenance could be avoided. In addition, having a plan for maintenance and improvements would help guide the Coordinator in determining priority, urgent and standard request.

Similarly, conducting regular building audits, based on the information from the District's first building renovation project could improve the quality of information collected by the Coordinator while reducing the frequency of building inspections. This would help reduce the District's high facilities maintenance overtime costs. Using a

computerized maintenance management system would also help WHCSD track the expenditures, including labor and supplies, related to facility maintenance and ensure that it is maintaining its facilities in the most cost effective manner (see **R4.4**). Closely tracking expenditures and ensuring they are appropriate and necessary, and align with the goals and plans of the District, would improve WHCSD's ability to control its facilities management costs.

Financial Implication: If WHCSD could reduce the cost of maintenance by 25 percent to \$0.72 per square foot through improved planning and management, it could save about \$120,000 annually.

- R4.4 WHCSD should implement a computerized maintenance management system (CMMS) to help improve management of its facility maintenance program. A CMMS automatically schedules and tracks preventive 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. Improved tracking, planning, and scheduling would help WHCSD improve the management and efficiency of its facility maintenance program (See R4.3).**

WHCSD implemented a formal work order process in May of 2008. The work order process involves building personnel filling out a paper form and sending it to the Coordinator. He then prioritizes the work orders, giving safety issues the highest priority. However, because there is no formal plan to guide the prioritization of work, items that would be routine in other districts may be given higher or lower priority in WHCSD.

The work order form collects information on the person requesting the work, the building in need of the work, the priority rating of the request, the completion date, the type of issue, a description of the problem and the proposed completion date, a description of the materials used, and the actual labor hours. However, the form does not track costs for materials and labor, or identify if the work to be completed is preventive maintenance. Although the form has a field for tracking labor hours, it is not used.

An example of the form provided to auditors showed that only the building, date, requestor, authorization, and problem description had been completed. Some notes were made in the official use box but no resolution was recorded, nor was cost assigned. The item, fencing an area for an eco lab, was categorized as "urgent" priority and appears to have received next-day attention. Although the review of work order requests was limited, this suggests that the information prioritization system may not be yielding expected results.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that a work order has been addressed, and track the cost of parts and labor. A work order system can be a manual, paper-based, tracking tool. More efficient work order systems come in the form of computerized maintenance management systems (CMMS). Their purpose is to manage work requests as efficiently as possible and meet the basic information needs of the District. Upon closing out a work order, all information about the request should be placed in a data bank for future historical and analytical use (e.g., for determining the yearly cost of building maintenance).

While the District's form and work order process meets some of the recommended elements of a work order system, implementing a CMMS system would:

- Help the Maintenance and Operations Department establish work priorities;
- Allow the requesting party to track work order progress through completion;
- Permit the requesting party to provide feedback on the quality and timeliness of the work;
- Allow preventive maintenance work orders to be included; and
- Ensure labor and parts costs are captured on a per-building basis (or, even better, on a per-task basis).

By tracking the information contained on work orders, the District will be able to ensure that processes are being completed in the most efficient manner and that repair needs are being addressed in a timely fashion. Furthermore, tracking supply and labor costs reported on the work order will allow the supervisor to annually calculate the maintenance labor costs and maintenance related supply costs, making departmental budgeting and staffing requests easier.

Financial Implication: A CMMS would cost approximately \$1,400 annually, based on supplier advertised prices. However, the exact price will depend on the features desired by WHCSD and the contract terms negotiated with the vendor.

R4.5 Because the District contracts out a sizable component of its maintenance work, it should develop a greater focus on the management of its facility maintenance contracts. It should update the job description for the Supervisor of Building and Grounds (or his designee) to include a contract management component. The District should also develop policies and procedures for the procurement and management of contracted services. All contracted services should be tracked (see R4.4) and evaluated for cost efficiency.

WHCSD employs only one maintenance employee, the Coordinator of Maintenance/HVAC and as the title implies, this individual is largely responsible for

bringing in contractors to perform maintenance tasks. Although contracted services are used for a wide variety of maintenance tasks, there has been little focus on formal contract management. The District has no formal contracting policies and procedures. Furthermore, since there is no formal plan to guide improvement projects or scheduled maintenance, the acquisition of some services may be haphazard or uncoordinated. This contributes to the District's high purchased service costs when compared to peers. However, the trend in Ohio school districts, as systems become more complex, is to use private contractors to perform specialized preventive and scheduled maintenance.

While contracting for facility maintenance is becoming more common, many schools have not adapted their facility management techniques to this practice. According to *Contracting for Services* (National State Auditors Association (NSAA), 2003), governments should develop policies and procedures for the procurement and management of contracted services. These policies and procedures should include:

- **Planning:** Planning also helps ensure proper information is collected to effectively structure a request for proposal.
- **Decision to Contract:** The agency needs to determine whether or not to contract for the services. This will determine whether outsourcing or keeping the service in-house is the necessary action.
- **Performance Requirements:** Once the decision to contract has been made, the agency should develop performance requirements that will hold vendors accountable for the delivery of quality services.
- **Request for Proposal Process (RFP):** The RFP itself provides a standardized framework for vendor proposals and highlights the business, technical, and legal issues that must be included in the final contract.
- **Award Process:** Although evaluation methods vary, the contract award process should ensure vendor proposals are responsive to the agency's needs, consistently and objectively evaluated, and contracts are awarded fairly to responsible vendors.
- **Award Decision:** An agency should consider the following when making an award decision:
 - Develop and follow appropriate procedures for handling late or incomplete proposals;
 - Ensure that an adequate number of proposals were received;

- Use an evaluation committee, comprised of individuals who are trained on how to score and evaluate the proposals and who are free of impairments to independence;
 - Use fixed, clearly defined, and consistent scoring scales to measure the proposals against the criteria specified in the RFP;
 - Carefully check vendor references;
 - Document the award decision and keep supporting materials; and
 - Carefully control bids upon receipt to ensure that bids are not opened prematurely to give late confidential pricing information, bids are not accepted after the due date, inferior bids are not given extra opportunities to cure deficiencies, etc.
- **Contract Provision:** Contracts for the purchase of services must be formal, written documents. Contracts should (1) protect the interest of the agency, (2) identify the responsibilities of the parties to the contract, (3) define what is to be delivered, and (4) document the mutual agreement, the substance, and parameters of what was agreed upon.
 - **Monitoring:** Monitoring should ensure that contractors comply with contract terms, performance expectations are achieved, and any problems are identified and resolved.

Using contracts with strict performance provisions, along with careful monitoring of service contracts, will help ensure that efficient, effective, and accountable vendors are selected for outsourcing services. Furthermore, strong contract management will provide mechanisms for monitoring the delivery of services on an ongoing basis.

In *Outsourcing Best Practices* (Elliot, 2008), best in class bidders for contracted services have formal processes to ensure they receive the best value for their contracts. Elliot's study identified four distinct areas to which top-performing facilities devote attention when it comes to the procurement and management of contracts. The four areas are preparation, contractor selection, transition and ongoing management.

Performance Over Price (Day, 1998) recommends schools view professional services as an extension of the school staff and that these services are selected with similar criteria, specialized experience and qualifications. The publication recommends using a qualifications-based selection process to obtain the best firm at the least overall cost. Under this model, professional-service proposals are weighted on competence, creativity and performance, and then on negotiation of a fair and reasonable price. Several professional firms submit qualifications and performance records for the district's review and the district ranks the most qualified firms based on this information. Then the district and the top-ranked firm or individual negotiate a scope of services, and then a fee that is

fair and reasonable to both parties. In this professional-selection process, price becomes a factor only after the most qualified professional firm has been identified and the district has come to an agreement on the scope of services.

Because of the increase in the use of contracted services, the US Department of Energy has amended its facility maintenance management personnel job description to include components of contract management. The requirements include understanding the role of facility personnel in contractor oversight and being able to develop an effective contractor relationship. Performance monitoring is also a component of the job expectations.

CMMS can help improve the management of contracts with vendors by tracking the contract details (including renewal dates), maintaining support and contract information in a single repository, and cataloging the resources covered by the contracts so that a district does not pay other contractors to repair or maintain equipment already under contract. Most importantly, CMMS can track the cost of the contract and frequency of its use so that this data can be used to make financial decisions from year to year. It can also help the District identify the total labor hours needed for certain projects and select those that will be performed in-house versus those that will be outsourced.

Since WHCSD outsources the bulk of its facility maintenance and exhibits high purchased services costs, it would benefit from improved management of contracted services. Using recommended practices for contracting and making contracting an important component of the facility maintenance personnel job functions would strengthen WHCSD's control over contract costs and performance levels, helping it maximize the value of outsourced services. Tracking and monitoring contracted services through a CMMS, as described in **R4.4**, would ensure the District has the appropriate cost and utilization information to make decisions about the value of its contracted services in the future.

R4.6 Based on WHCSD's current building capacity and utilization rates, the District should follow through on the remaining step in the first phase of its building and renovation plan by closing Eastwood Elementary School. Closing Eastwood as soon as possible would increase District-wide building utilization rates and result in much-needed cost savings for the District.

WHCSD does not have enrollment projections or functional capacities for its school buildings, standard documents used to determine building capacity and utilization rates. However, it planned to close Eastwood Elementary once its new middle school was built. As the expansions and renovations to existing elementary school buildings have been completed, the District could redistribute its elementary school students for FY 2009-10 and close Eastwood while waiting to begin the second phase of its OSFC project.

However, the District has not made plans to close the building. Furthermore, an analysis of its headcount versus current and planned building capacity indicates that, unless enrollment trends change, it may have to reconsider its grade configurations.

The District's enrollment has declined by about 16 percent since FY 2005-06.⁹ On average, it loses about 8 percent of its enrollment annually. **Table 4-6** illustrates the District's functional capacity compared to its headcount (building utilization rates) for FY 2007-08.

Table 4-6: FY 2007-08 WHCSD Summary Capacity and Utilization

| Building | Functional Capacity ¹⁰ | FY 2007-08 Head Count | Over/(Under) Capacity | FY 2007-08 Utilization |
|---------------------------|-----------------------------------|-----------------------|-----------------------|------------------------|
| Eastwood (pre-k to 4th) | 355 | 257 | (98) | 72% |
| Westwood (k to 4th) | 375 | 276 | (99) | 74% |
| John Dewey (pre-k to 4th) | 420 | 286 | (135) | 68% |
| Randallwood (5th & 6th) | 410 | 325 | (86) | 79% |
| Elementary | 1,560 | 1,143 | (417) | 73% |
| Middle (7-8) | 629 | 381 | (248) | 61% |
| High School (9-12) | 952 | 842 | (110) | 88% |
| Total | 3,141 | 2,366 | (775) | 75% |

Source: WHCSD, AOS, and EMIS enrollment data submitted to ODE

Except for the high school, the District's building utilization rates are below the optimum utilization rate of 85 percent; however, closing an elementary school, as was planned by the District, would improve the utilization rate in the elementary buildings. If the district closes Eastwood according to its plan, it does not have sufficient space in the remaining elementary schools to accommodate PK-4.

Table 4-7 illustrates one option for WHCSD to consider: retain PK-3 in its elementary schools, and house grades 4 and 5 at Randallwood, grades 6-8 at the middle school and grades 9-12 at the high school.

⁹ A 10-year projection could not be completed for WHCSD due to the lack of reliable data.

¹⁰ The capacities for all elementary school buildings were calculated by multiplying the number of regular classrooms and full-day kindergarten rooms by 25 students, and self-contained and pre-school special education rooms by 10 students to arrive at the total capacity of the building. Classrooms used for music, art, resource room, tutoring, gym, library and computer labs are set aside and excluded from the number of rooms used in the calculation. The capacity in the middle school and senior high school was calculated by multiplying the total number of teaching stations by 25 students and multiplying the product by an 85 percent utilization factor.

Table 4-7: Proposed WHCSD Configuration and Utilization Rates

| Proposed Level/Schools | Functional Capacity | Estimated Head Count | Utilization Rate |
|--|---------------------|----------------------|------------------|
| Elementary (PK-3) <i>Westwood</i> <i>John Dewey</i> | 795 | 658 | 83% |
| Middle (4-5) <i>Randallwood</i> | 410 | 308 | 75% |
| Junior High (6-8) <i>Middle School</i> | 629 | 551 | 88% |
| High School (9-12) | 952 | 842 | 88% |
| Total (District-wide) | 2,786 | 2,359 | 85% |

Source: AOS

Although WHCSD would need to reconfigure its elementary grades and move to an elementary, middle, junior high, high school framework based on the population of students and its building capacity, this would increase its utilization to the optimal level of 85 percent District-wide. The junior high grades, housed in the middle school, and the high school would be slightly above optimal capacity. However, when the new middle school is built (with an estimated capacity of 750) the utilization rate within that building will drop to about 73 percent. No additions or changes to the high school were anticipated as part of WHCSD's second phase of building and remodeling.

A Guide for the Adaptive Use of Surplus Schools (Giljahn & Matheny, 1981) notes that although a number of districts are experiencing declining enrollment there has not been a corresponding decline in facilities expenditures per pupil. In fact, the cost of operating half-empty schools is particularly wasteful as many of the basic expenses at these schools continue as if the buildings were fully occupied. Almost as many teachers and custodial workers are required to staff a partially used school, and neither utility bills nor debt service charges decrease along with enrollment.

Faced with the aforementioned scenario, many school administrators have generally recommended the closing of surplus facilities as the simplest and most inexpensive immediate solution. Consolidation of students and educational resources has immediate benefits including:

- Balancing of class sizes;
- Sharing of educational materials;
- Staff reductions;
- Better use of specialists;
- Easier supervision of the program; and
- Fewer dollars spent on fuel, maintenance, and personnel.

Based on its current functional capacity and headcount, WHCSD would be able to close Eastwood elementary and achieve an immediate cost savings. Redistribution of some grades would be required in order to balance the utilization rates among buildings. Implementing this aspect of its ELPP agreement would bring WHCSD more in line with peer operating costs and yield additional savings in administrative and support personnel associated with the building.

Financial Implication: If the District closed an elementary school, the District would save approximately \$75,000 in utility expenditures and \$180,600 in salaries and benefits.¹¹ This would result in total potential annual cost savings of approximately \$255,600.

Energy Management

R4.7 WHCSD should develop and implement formal energy management practices. The Board should implement a policy and procedures that incorporate practices recommended by NCES and the School District Energy Manual. The District should distribute and discuss the policies and procedures with the administration, faculty, and staff in an effort to educate them about energy conservation and the impact waste has on the District's operating budget. As a component of the procedures, WHCSD should implement an energy conservation education program for its students.

The District should also consider assigning an employee to monitor District-wide and building-level energy consumption to identify potential issues of waste and/or inefficient equipment. To ensure that appropriate monitoring is taking place, the Superintendent, Business Manager, and building principals should be provided with copies of the building level energy use reports on a monthly basis.

WHCSD has not implemented an energy management program or invested in energy saving equipment and building systems through HB 264 projects. The District has a centralized HVAC control system for one of its buildings but does not use it to control the temperatures. Although WHCSD participates in a consortium to purchase its electricity, fuel and natural gas, the cost savings obtained through group purchasing are not reflected in the District's utilities costs.

Recently, the District has made efforts to promote energy management. In the past, the District operated boilers almost year-round, even in the summer. However, to save energy, the District now shuts the boilers down in the summer. Furthermore, occupancy sensors have been installed on lights within the buildings and some temperature controls

¹¹ This calculation excludes the salaries and benefits for two custodians which would yield an additional \$82,000 annually in savings.

are being used. While the District has taken some measures to control utility costs, it does not have a formal energy management policy, procedures, or guidelines for staff to follow nor does it have an employee who is responsible for monitoring energy use as a means to identify trends and possible waste.

The District's utility costs exceed both the peer average and the AS&U Annual Maintenance and Operations Cost Study five year average. **Table 4-4** shows the District's FY 2006-07 utility cost per square foot (\$1.98) is significantly higher than the peer average (\$1.18) and the AS&U national median (\$1.71). In FY 2007-08, WHCSD spent over \$1 million on utilities.

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 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 The Association of School Business Officials International in its publication *School District Energy Manual* (ASBO, 1992), recommended school temperatures should be 68 degrees for heating and 78 degrees for cooling of occupied spaces. For unoccupied spaces, the recommended temperature is 55 degrees for heating and to turn off cooling in these spaces.

Groveport-Madison Local School District (Franklin County) has implemented many of the practices identified by NCES. For example, it has adopted formal energy management policies and conducts in-service training before the start of every school year to educate the employees about the importance of conserving energy. Additionally, it has assigned one employee the responsibility of monitoring utility invoices and usage trends to identify possible malfunctions in equipment (i.e. water main breaks) and/or erroneous meter readings.

Similarly, the Lakota Local School District's (LLSD) Union Elementary School has an energy conservation education program which consists of placing energy conservation reminders on or near all office equipment and energy consuming items. In addition, Union Elementary reiterates these reminders to students, parents, and community members through their continued inclusion in the building's newsletters. These energy conservation education measures were credited with producing savings of approximately 21 percent for Union Elementary relative to LLSD's average elementary building.

In FY 2005-06, Mansfield City School District implemented an aggressive energy conservation program. It developed energy conservation policies which were distributed to all employees. Employee participation in the measures was required of all personnel. 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 NCEC and US Department of Energy publications, but included several leading practices as well. Some of the stipulations of the policy that exceed recommended practices include the following:

- Areas that are not occupied (even if left for a short period of time) will have lighting turned off. After the school day, custodians will use half lighting in the hallways where possible. Custodians will turn on lighting only in areas where they are working or for scheduled facility use. (Schools can save from 8 percent to 20 percent in energy costs simply by turning off lights in unused rooms.)
- Refrain from turning lights on unless definitely needed. Remember that lights not only consume electricity, but also give off heat. This places an additional load on the air conditioning equipment and thereby increases the use of electricity necessary to cool the room.
- Entry doors and secondary entry doors should be kept closed and not propped open (except during start of school and dismissal.)
- Where applicable, curtains and/or blinds should be closed at the end of each day.
- Teachers will ensure that all classroom computer hard drive (CPU units), PC monitors, local printer, and speakers are turned off during periods of time the buildings are not occupied by students.
- Space heaters use 1000 watts per hour. They are to be eliminated from use in all buildings.
- Personal plug-load electrical appliances that are not directly related to official business should not be introduced into the workspace. This includes personal

beverage makers, warmers, space heaters, personal refrigerators, microwaves, toaster ovens, hot plates, and three (3) or more circulating fans in one room. These are restricted from school district facilities, unless authorized in writing by the Chief Operating Officer's Office. If these items are found in the building, they shall be removed by the Custodial Manager.

- Coffee makers may be established at a central point.
- A maximum of two (2) circulating fans may be used in a specific workspace. No more than two circulating fans may be used in a typical classroom. The presence of more than two fans is prohibited.
- Where cross-ventilation is available during periods of mild weather, shut down air conditioning equipment and adjust the temperature by opening windows and doors.
- Refrigerators in staff lounge and science areas will be emptied and unplugged during extended breaks and over the summer, unless used for summer school.
- The head custodian at each school will be responsible for operating the building in an unoccupied mode at the closing of each school day or scheduled facility use.
- Window air conditioning units are strictly prohibited unless approved and installed by the maintenance department. The only requests that will receive consideration are those that provide documented health issues for a student or staff member or a space that is occupied during the majority of the summer months.

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 plants. First year costs may be somewhat higher if the district purchases software or program equipment or contracts for initial consulting assistance. Costs will be less if substantial assistance is provided by utilities or other parties.

By developing a formal energy management policy, procedures and guidelines for staff, as well as instituting mechanisms to monitor energy use, the District would be better able to control and potentially reduce utility costs. Reducing the use of personal electronic devices and space heaters, encouraging personnel to turn off lights and computers when not in use along with other leading energy management practices could help the District

save up to 20 percent on its utility bills. Other estimates are savings per square foot of \$0.06 to \$0.30, depending on the practices implemented and the degree of compliance. 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 WHCSD reduce its energy costs and redirect these funds to classroom instruction.

Financial Implication: If the District implemented aggressive energy management policies, procedures and practices, it could save between \$0.30 per square foot (\$151,000) and 20 percent (\$200,000), depending on the model used. A conservative estimate, based on the limited effort currently underway, would result in expenditure reductions of 10 percent (\$0.19 per square foot) which would yield approximately \$100,000 in annual savings.

Recreation Center

R4.8 The District should implement a business plan to determine if the Recreation Center can become a self-supporting entity. Through the business plan, WHCSD should collect business and community feedback regarding the Center, including suggested changes that would be needed to make the facility more attractive to residents and surrounding cities, as well as methods to advertise the Recreation Center’s availability and potential uses. Using the business plan development process, the District should also establish goals related to the level of self-sufficiency attained by the Recreation Center.

If the business plan indicates the Recreation Center cannot become self-supporting by FY 2010-11, the District should take steps to lease the Center, or use it only for District activities. In addition, the District should ensure that all costs incurred by the Recreation Center are charged back to the Recreation Center line item in District financial reports. This will help to ensure that it limits or ceases to subsidize the Recreation Center’s operations from General Fund resources.

The District’s Recreation Center is not self supporting and requires General Fund revenue to operate. The Center has been open since at least 1982. It was developed as a partnership between the City and District and is supported by a small tax levy which brought in about \$175,000 in FY 2006-07. The original recreation center consisted of an outdoor pool and separate building at the middle school, but, under its 1999 bond issue, the District constructed a new facility, which is attached to its high school building. The facility includes a track, pool, basketball court, and weight room.

The Recreation Center has various programs and activities and serves both the District and members of the community. While fees are established for the programs it offers, no

membership fee is charged for the general use of the Recreation Center and no fees are charged for use of the track. In June 2008, the supervisor submitted a membership plan for the students of Warrensville, Highland Heights and North Randall schools and their families, administration and staff, residents and non-residents. However, the District has made no movement on this proposal to date.

The District also has not formally surveyed community residents for their opinions on programming, although it recently enquired about residents' willingness to pay a membership fee. Furthermore, a task force has been formed to develop options for making the Recreation Center self-supporting. Due to the lack of emphasis on revenue generation, the Recreation Center has been subsidized by an average of \$90,000 from the General Fund. **Table 4-8** provides a three-year revenue and expenditure history of the center.

Table 4-8: Recreation Center Financial Condition from FY 2005-FY 2007

| | 2005 | 2006 | 2007 | Three year Average |
|--|-------------------|--------------------|-------------------|--------------------|
| Total Revenue | \$173,986 | \$172,084 | \$174,399 | \$173,490 |
| <i>Salaries</i> | \$126,992 | \$152,779 | \$140,259 | \$140,010 |
| <i>Benefits</i> | \$36,985 | \$40,011 | \$44,780 | \$40,592 |
| <i>Contracted services</i> | \$18,082 | \$122,907 | \$73,732 | \$71,574 |
| <i>Supplies</i> | \$15,303 | \$4,269 | \$6,774 | \$8,782 |
| <i>Other</i> | \$2,454 | \$2,179 | \$2,573 | \$2,402 |
| Total Expenditures | \$199,817 | \$322,145 | \$268,118 | \$263,360 |
| Total Revenue over Expenditures | (\$25,831) | (\$150,060) | (\$93,719) | (\$89,870) |

Source: WHCSD REVLED and BUDSUM reports

Although the cost variance between revenues and expenditures depicted in **Table 4-8** varies, the General Fund consistently subsidizes the Recreation Center's operations. In addition, other Recreation Center operating costs, such as custodial and security guard salaries and benefits, as well as supplies, are charged directly to the General Fund.¹²

The Recreation Center Supervisor indicated that several barriers exist to making the Recreation Center self sufficient. These include the following:

- A lack of marketing, planning, and investment in the program.
- Poor facility planning. For example, the Recreation Center has a swimming pool, but when it was built, it was not large enough to be classified as an Olympic-size

¹² Based on estimated wages, WHCSD may spend an additional \$100,000 in salaries and benefits for custodial and security employees. This does not include the cost of supplies as these have not been tracked separately and could not be extracted from total facility expenditures.

pool. Therefore, it cannot be used for swim meets, which results in a loss of potential revenues obtained from renting the pool for swimming competitions.

- The facility cannot be classified as a fitness center, since it does not have enough fitness equipment (three treadmills and a small weight room).
- Most importantly, the City of Warrensville Heights has begun talks with the Young Men’s Christian Association (YMCA) about building its own recreation center.

In order to formalize and focus the District’s efforts on making the Recreation Center self-sustaining, it should begin with a business plan. According the “*How to Write Your Business Plan*” (Nonprofit World Volume 17, No. 2 March, 1999), a business plan should include:

- **A description of your organization and your new business** – with a description of your organization, your product or service, a target consumer, the consumer’s need for the product or service, and a sales strategy;
- **A description of the market** – for the product or service, including information on the competition and cost/price comparisons between competitors and the organization;
- **A marketing plan** – that includes information on the markets, customers, competitors, macro environment, demography, economy, technology, government, culture, how each of the areas affects the marketing and selling of the product or service, and evaluation of potential pitfalls;
- **A financial plan** – including sources and applications of cash and capital, equipment list, balance sheet, break-even analysis, cash flow estimates, projected income and expenses, historical financial reports, etc; and
- **An appendix** – with an organizational brochure and newsletter, other pertinent material about the organization and its work, letters of endorsement, and copies of signed contracts for business.

The Government Finance Officers Association (GFOA) notes that local governments use fees and charges to fund the provision of goods and services. Unlike taxes, charges are voluntary payments. Economic theory suggests that the most efficient use of resources is achieved if the price for a good or service is related to the cost of production. GFOA states that “In practice, governments set some charges and fees to recover 100 percent of the cost. Other charges and fees are set at levels above or below cost for various reasons,

and in some cases, the amount of a charge or fee may be restricted by state or local law.” GFOA recommends the following:

- Adopt formal policies on setting charges and fees;
- Calculate the full cost of providing services to provide a basis for the fee;
- Review and update charges and fees periodically to include the impact of inflation and other cost increases; and
- Make information regarding charges and fees available to the public, including the government’s policy on cost recovery.

To begin determining the cost of services, the District might use *Measuring the Cost of Government Services* (GFOA, 2002) to help determine appropriate levels for its fees and charges for use of the Recreation Center and its programs. Using this information, WHCSD may be able to identify areas to reduce the cost of the services provided by the Recreation Center—either through improved management or by partnering with other organizations—so that expenditures can be brought more in line with revenues.

WHCSD can use the marketing plan to increase its marketing efforts, identify appropriate target groups, and develop a funding model that will eliminate the center’s reliance on the General Fund revenue. Likewise, it can use its financial information to identify the required fee level to help it fully fund the cost of the Recreation Center, including those costs currently incurred by the General Fund. If it does not increase fees and establish a formal marketing campaign to increase fee-based use of the Recreation Center, the District will continue to use a substantial amount of General Fund revenue to operate the Center. If the District is unable to balance the Recreation Center’s operating costs and revenues, it should explore alternatives to operating the facility, such as reverting it to a District structure or eliminating this service altogether. As an intermediate measure, it might discontinue use of its pool as this is a major cost driver in the center’s operations.

Financial Implication: If the District is able to increase the fee-based use of the Recreation Center and decrease its costs to operate the center, it can avoid General Fund expenditures of approximately \$200,000 annually.

Financial Implications Summary

The following table represents a summary of estimated annual costs and annual cost savings for this section. For the purpose of this table, only recommendations with quantifiable impacts are listed.

Table 4-9: Summary of Financial Implications for Facilities Section

| Recommendation | Annual Costs | Annual Savings |
|---|---------------------|-----------------------|
| R4.1 Eliminate 4.0 FTE custodial positions | | \$164,000 |
| R4.2 Reduce overtime expenditures to 2 percent of salaries ¹ | | \$64,500 |
| R4.3 Reduce purchased services expenditures through improved planning and management | | \$120,000 |
| R4.4 Purchase a CMMS system | \$1,400 | |
| R4.6 Close Elementary School | | \$255,600 |
| R4.7 Develop energy management and conservation policies | | \$100,000 |
| R4.8 Reduce Recreation Center costs to the General Fund | | \$200,000 |
| Total | \$1,400 | \$904,100 |

Source: AOS

¹ Savings identified are based on WHCSD's FY 2007-08 staffing levels. If District implements recommended staffing reductions in **R4.1**, the savings from **R4.2** would be reduced.

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Transportation

Background

This section of the performance audit focuses on Warrensville Heights City School District's (WHCSD or District) transportation operations. The operations were evaluated against leading practices, operational standards, and selected peer school districts.¹ Comparisons were made for the purpose of developing recommendations to improve efficiency, and business practices, and reduce expenditures. Throughout this section, leading practices and operational standards were drawn from various sources including the American Public Works Association (APWA), the American Association of School Administrators (AASA), the Ohio Department of Education (ODE), the Government Finance Officers Association (GFOA), and the Legislative Office of Education Oversight (LOEO).

Ohio Revised Code (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 school. Districts are also required to provide transportation to community school and non-public school students on the same basis as is provided to other students. In addition, school districts must provide transportation to disabled students who are unable to walk to school regardless of the distance. Finally, when required by an individualized education plan (IEP), school districts must provide specialized, door-to-door transportation to special needs students based on the unique needs of the child.

WHCSD used 10 active buses and 1 spare bus to transport 563 riders in FY 2007-08.² The FY 2007-08 level of transportation service exceeded State minimum transportation standards, as the District transported all kindergarten students; students in first through fourth grade that live one or more miles from their school; and students in fifth through eighth grade that live one and one-half miles or more from their school. WHCSD does not transport high school students except those exempt from the practice due to hazardous conditions.

The District's buses generally follow a two-tiered routing system, based on a staggered bell schedule. Three buses also run a third tier because Randallwood, which houses fifth and sixth grade, starts earlier than the other elementary schools. In addition, WHCSD transported students to a vocational school (Cleveland Heights), a college preparatory program (Cuyahoga Community College) and to a non-public school (New Covenant Christian). Bus routes are determined by the Transportation Supervisor and Dispatcher and are approved by the Board of

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

² The District used 9 active buses and 1 spare bus to transport 676 riders in FY 2006-07.

Education. In FY 2007-08, the Board approved routes and times prior to the start of the school year.

During the course of the audit, auditors identified significant errors in the District's T-2 reports. These errors impacted the reliability of the data and resulted in auditors not being able to complete some financial analyses. However, as this data was the only source for some aspects of the analysis, the data was used but the findings and recommendations were qualified based on the poor quality of the data. In most instances, costs were over-reported. In one instance, certain employees were counted twice in the report. Also, special needs transportation cost reports were rejected by ODE which led to the identification of overbilling and inappropriate transportation arrangements for some students. Finally, non-routine transportation costs were improperly included in some of the reports. WHCSD has taken steps to improve its data reliability in some areas but ODE officials have noted that issues have not been entirely resolved.

WHCSD could improve management controls in its transportation services through the development and implementation of additional formal policies and procedures including:

- **Board adopted transportation policies and procedures** which reflect the current level of transportation services (see **R5.1**);
- **A hazards procedure** that is aligned with OAC and provides guidance on identifying and resolving safety hazards within the district (see **R5.1**);
- **A policy on reimbursement for non-routine transportation services** (see **R5.2**);
- **Policies and procedures for maintaining T-Form information** to ensure the information is collected, reviewed, and reported accurately (see **R5.3**); and
- **Policies and procedures for equipment and fleet management** that guides the District in tracking new and used parts and equipment and conducting an annual inventory count (see **R5.6**);

Organizational Structure and Responsibilities

Under the direction of the Business Manager, the Transportation Supervisor manages the District's Transportation Department and is responsible for the planning and delivery of transportation services. He supervises 2 part-time bus aides, 10 bus drivers with assigned routes, 1 dispatcher, and 1 mechanic. The Dispatcher performs program support functions, including answering and directing phone calls and maintaining records. One of the bus drivers also assists with bus maintenance. The Transportation Supervisor, Dispatcher, and Mechanic are all qualified to drive buses and occasionally serve as substitute drivers.

Operational and Cost Comparisons

Table 5-1 compares WHCSD's operational data to the peer average.

Table 5-1: Key Operating Statistics ¹

| Key Statistics | WHCSD | Peer Average | Percent Above/ Below |
|--|-------------------|--------------|----------------------|
| Square Miles | 8 | 20.5 | (61.0%) |
| Students per Square Mile | 300.3 | 153.8 | 106.1% |
| Transportation Expenditures as Percent of General Fund | N/A ² | 4.3% | (0.6%) |
| Total Yellow Bus Riders | 563 | 1,296.8 | (47.9%) |
| Percent Public Riders | 96.6% | 94.4% | 1.9% |
| Percent Special Needs Riders | 1.6% | 1.8% | (1.8%) |
| Percent Non-public & Community School Riders | 1.8% | 3.8% | (0.1%) |
| Active Buses | 10 | 15.6 | (42.3%) |
| Spare Bus Ratio | 9.0% | 26.3% | (16.3%) |
| Annual Routine Miles | 66,060 | 155,988 | (62.7%) |
| Routine Miles per Active Bus | 6,606 | 10,384 | (37.7%) |
| Non-routine Miles as Percent of Total Miles | 12.0% | 18.2% | 0.7% |
| Yellow Bus Riders per Active Bus | 56.3 ³ | 88.2 | (14.9%) |

Source: WHCSD and peer districts FY 2006-07 transportation data as was reported to ODE. Peer district data has not been tested.

Note: WHCSD data is drawn from FY 2007-08, the most recent fiscal year available at the time of the audit. Peer data is FY 2006-07; updated data was not available from ODE at the time of the audit. However, because **Table 5-1** includes only operational data that shows little fluctuation form year-to-year, the differing fiscal years have no impact on the analyses.

¹ A historical comparison of transportation data was not performed because T-Form operating and expenditure data in FY 2005-06 was unreliable. ODE worked with the District to correctly submit its FY 2006-07 data.

² WHCSD's T2 form for FY 2007-08 is under review by ODE due to concerns about accuracy of data reported.

³ This ratio includes one special education bus and the one bus used to transport vocational education students.

As shown in **Table 5-1**, WHCSD is geographically smaller and more densely populated than the peer average and these differences results in fewer miles driven per bus. WHCSD contracted transportation for special needs riders in FY 2006-07. However, in FY 2007-08 the District added one special needs bus to its in-house transportation services but continued to contract transportation for most special education students. WHCSD was at or below the peers in terms of its spare bus ratio and non-routine miles as percent of total miles. In terms of riders per active bus, the data shows that the District bus capacity is not being fully utilized. In FY 2006-07, WHCSD transported 75 students per bus. In FY 2007-08, this number dropped to 66.4³

³ This ratio is impacted by the low ridership on the one special education bus and one bus that is used to transport vocational education students. Including these two buses and these riders in the calculation, the riders per active bus is 56.3.

compared to the peer average of 88.2. Districts that are able to transport high numbers of students per bus are typically more flexible in transportation operations and have lower operating costs (see **R5.5**).

Table 5-2 displays WHCSD expenditures per rider, per bus, and per mile in comparison to the peers.

Table 5-2: FY 2006-07 Expenditure Comparison

| | WHCSD | Peer Average | Percent Above (Below) |
|--------------------------------------|----------|--------------|--------------------------|
| Total Yellow Bus Expenditures | | | |
| Per Rider | \$1,223 | \$496 | 146.6% |
| Per Active Bus | \$91,849 | \$38,725 | 137.2% |
| Per Routine Mile | \$14 | \$4 | 250.0% |

Source: School district transportation data as reported to ODE.

Note: WHCSD's T2 form for FY 2007-08 is under review by ODE due to concerns about the accuracy of data reported. Therefore, the prior year's financial data was used for this comparison. The FY 2006-07 T2 data was deemed sufficiently reliable for this analysis.

In FY 2006-07, WHCSD's expenditures per rider, per bus, and per routine mile all significantly exceeded the peer average. Although the District's higher population density allows buses to make shorter runs and travel fewer miles, this is not reflected in a greater level of efficiency. This indicates there may be opportunities for substantial savings in the District's transportation operations (see **R5.5** and **R5.6**).

WHCSD has sufficient controls in place to secure fuel, buses, and transportation supplies. It has a fuel pump that automatically tracks fuel use and generates a report showing how much fuel was pumped by which driver. In addition, all buses are parked inside the bus lot which is locked at night, and transportation supplies are kept in a storage room that can be locked in the bus garage, although District personnel have full access to the room during the day. Also, WHCSD participates in the Ohio School Council's purchasing consortium and uses its membership to purchase buses and fuel. This is considered a recommended practice.

Audit Objectives for the Transportation Section

The following questions were used to evaluate transportation operations within the District:

- 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 & II) transportation service compare with peer districts and/or industry standards?
- How can the District improve its operating efficiency?
- How can the District improve the cost-effectiveness of transportation operations through improved human resource management?
- How does the District ensure it gets the best value when purchasing transportation related items?
- Is the District effectively and efficiently maintaining and managing its fleet?
- Is the District providing specialized transportation service in an effective and efficient manner?

Although the findings and recommendations in this section identify about \$417,900 in estimated savings, this amount likely represents a highly conservative estimate of cost saving opportunities. If all reductions are applied to WHCSD's FY 2007-08 costs, it still would spend about twice as much as the peers. The data reliability issues encountered and the absence of key information led auditors to be very conservative in their estimates of potential cost savings. Because of the magnitude of savings identified and the impact of the reductions on overall costs, WHCSD is encouraged to re-evaluate its services and expenditure data once its data is corrected so that remaining cost factors can be identified and mitigated.

Recommendations

Policies and Procedures

- R5.1 The Board should update its transportation policies at least annually to reflect the current level of transportation service. Keeping policies current will help improve the communication and coordination of transportation-related services to all stakeholders. Once updated, the policies, along with information about pick-up points and times, should be published on the District’s web page.**

WHCSD has Board-approved transportation policies; however, these do not reflect the current level of transportation services. The policy states that the District transports elementary and middle school riders who live more than two miles from school. This mirrors State-mandated minimum transportation requirements. However, in practice, the District transports students who live less than two miles from their assigned school.

The District distributes a newsletter to all parents prior to the beginning of the school year, which outlines transportation pick-up locations and times by school building, street, and cross-street. The newsletter also includes specific walking areas but does not articulate WHCSD’s transportation practices, methods to request exemptions based on hazardous conditions, or the process for contacting the Transportation Department with questions or concerns. The newsletter does not include the Board policies or a reference to them. Furthermore, Board policies are not included on the District’s web site. The newsletter information is also not included on the District’s web site.

According to *Key Legal Issues for Schools* (Association of School Business Officials, 2006), school board policies provide visible statements about the board’s beliefs and actions regarding educational and managerial practices, and are the means through which boards plan their strategic directions. Policies should be adopted with a clear vision and strategies for achieving that vision. As a result, they should be the basis for the actual practices as well as a resource for the decision making of a district. In addition, procedures for school boards should include annual reviews of all new and revised policies to determine whether modifications should be made on the basis of implementation and experiences.

Lakota Local School District (Butler County) has developed a transportation services web page to communicate transportation-related information to parents and students. The page includes information on bus stops and times for Lakota students as well as non-public riders. It also has links to descriptions of procedures for certain transportation service-related issues (e.g., stop appeal forms, non-public bus request forms, etc.), as well as items that may be useful to parents (e.g., information on student safety and bus stop

change forms). The location and contact information on the Transportation Department is also clearly posted on the page.

Without written guidelines that reflect actual practices, District staff and the community may not receive clear direction about the transportation practices of the District. Written policies that reflect Board approved service levels will provide stakeholders unambiguous guidance on transportation issues and exceptions to the transportation policy. The District could update its policies and add this information to its web site using existing resources.

- R5.2 The District should develop and implement a policy and procedures for recouping the cost of non-routine transportation services.⁴ Specifically, the Board should approve a policy meeting the requirements of OAC 3301-83-16(B) regarding the recovery of operational costs incurred for non-routine transportation. It should direct the Business Manager and Treasurer to use GFOA-recommended practices to develop a cost-recovery methodology.**

Procedures for calculating the fees should be documented and distributed to District personnel and when requests for non-routine transportation are submitted, the calculated amounts should be included in the Treasurer’s Office portion of the form. Finally, the calculations for charges should be reviewed for accuracy and indications that the fees have been paid should be documented on the form before it is archived. Improving the cost-recovery process will ensure that appropriate parties (e.g. Athletic Fund) are charged for the cost of services and that the full costs of operations are recovered.

During the audit, the District developed a *Procedure for Estimated Costs of Field Trips*. The Business Manager indicated that the calculation included in the procedure will be reviewed annually.

A general policy on the non-routine use of school buses is included in Board policy; however, it outlines OAC-approved uses of school buses. The Board policy stipulates that:

“School buses may be used for non-routine trips only when approved by the Board and the trips do not interfere with the routine transportation services. These may include the following:

⁴ OAC 3301-83-16 defines the non-routine use of school buses as “transportation of passengers for purposes other than regularly scheduled routes to and from schools. Traditionally, districts use school buses to transport students for educational field trips, as well as athletic teams, band groups, and other school groups to contests or functions in which the team or groups participates. There are limitations to a district’s discretion as to the non-routine use of school buses.

- Trips that are extensions on the instructional programs;
- Trips to transport students participating in school sponsored events;
- Transporting students participating in summer recreation programs approved by the Board and recreation commission;
- Trips for the aged when contracted with a municipal corporation or public non-profit agency;
- Trips to transport students and/or adults to or from local community events which are school or local community sponsored; and
- Emergency evacuations when such emergencies are declared by State and/or local officials.”

OAC 3301-83-16 states that school buses may be used for non-routine trips only when such trips will not interfere with routine transportation services. Specifically, non-routine trips must be considered as part of the school’s program or as part of a school sponsored program.

The Board policy on *Special Use of School Buses* does not include requirements that the non-routine use of school buses be reimbursed to the District. Although Board policy does not address cost recovery, the District has developed a *Transportation Request Form* to address non-routine transportation. The form contains limited instructions but permits the Business Office to develop a price for the trip. The methodology for calculating the trip price is not included on the form or in a written policy or procedure, nor is use of the form formally stipulated in District policies or procedures.

Through interviews with District personnel, the cost methodology was explained to auditors. The Internal Revenue Service mileage rate is applied to the trip mileage and a \$10 additional service charge is included in the bill. Although the *Request Form* documents driver hours for the purposes of calculating base wages and overtime, these factors were reportedly not included in the cost (although later tests indicated that some form of driver time was included). Furthermore, the cost of wear-and-tear on the buses or other factors may be included in the cost determination, but the basis for this cost inclusion was not communicated to auditors or established in formal District documents.

Except for field trips on regular school days (for which no transportation charge may be imposed), OAC 3301-83-16(B) requires school boards to recover the operational costs associated with the non-routine use of school buses, including reimbursements to cover driver salaries and benefits, fuel, maintenance, service, supervision and insurance.

The Government Finance Officers Association (GFOA) notes that local governments use fees and charges to fund the provision of goods and services. In setting fees and charges, GFOA recommends the following:

- Adopt formal policies on setting charges and fees;
- Calculate the full cost of providing services to provide a basis for the fee;
- Review and update charges and fees periodically to include the impact of inflation and other cost increases; and
- Make information regarding charges and fees available to the public, including the government's policy on cost recovery.

To begin determining the cost of services, WHCSD might use GFOA's *Measuring the Cost of Government Services* (2002) to help determine appropriate levels for its fees and charges.

During a review of the *Transportation Request Forms* auditors identified several issues that do not appear to be consistent with District practices or procedures.⁵ Using the methodology explained to auditors by the District, auditors calculated an estimated cost rate. This rate was considerably different from that included on the form as the final amount.⁶ As no calculations or notes are included on the form to explain the discrepancy, the reasons for this difference cannot be determined. Also, the District's negotiated agreement states that drivers are paid time-and-a-half for hours worked over 40 but that "sit time" is charged at straight time. Based on the payroll records attached to the form, the driver was compensated for 16.6 hours of overtime rather than 8 hours of overtime and "sit time" was not excluded from the overtime calculation. The vagueness of the methodology used to calculate the charges, and the inability of District personnel to explain, or auditors to replicate, the costs raises concerns about the District's cost recovery methodology and its impact on financial solvency. (See also **financial systems**.)

Without formal policies and procedures for recapturing the costs of non-routine transportation, WHCSD cannot ensure that it fully recovers the costs of providing these services. This may, in turn, negatively impact the General Fund as it must subsidize non-educational activities. The absence of formal policies and procedures also inhibits the District's ability to ensure that calculations for charges are accurate and represent the true cost of services. Finally, without a review process, errors in billing and payment may occur which may result in the District being over or under compensated for the cost of non-routine transportation services. The District can implement the recommended policies and procedures at no additional cost.

⁵ The form reviewed was a transportation request form for an athletic trip taken in March 2008.

⁶ The form contained a previous amount which was marked out and replaced by the amount billed to the fund.

R5.3 WHCSD should follow ODE's policies and procedures to ensure that State-required transportation reports contain accurate information that is collected and reviewed under a formal process. The Transportation Supervisor and the Treasurer should verify transportation ridership and expenditure data before it is submitted to ODE for reimbursement. More specifically, the District should require the Treasurer's Office to complete a final review of the transportation data reports prior to submission to ODE. Finally, the Transportation Supervisor and those involved in the review process should attend T-Form training to ensure the proper submission of transportation data.

The Assistant Treasurer, Transportation Supervisor, and Transportation Dispatcher are the primary employees involved in obtaining transportation ridership and expenditure data to complete State-required reports. These employees began to participate in the data submission process in FY 2006-07. According to the Transportation Supervisor, there are no formal District guidelines for completing the T-forms, although the Transportation Supervisor provided supporting T-1 information and the Assistant Treasurer provided supporting T-2 data.

Bus drivers conduct rider counts during the October count week, as required by ODE T-1 instructions. The Transportation Department averages the number of students for each of the five days counted and reports the average as calculated. T-1 (ridership) information is submitted via the on-line reporting system but the process used is informal. Furthermore, the process for compiling T-2 (expense) information has not been formalized but is completed by the Transportation Supervisor and the Assistant Treasurer. The Treasurer and Superintendent approve the information submitted as required by ODE. The Transportation Supervisor indicated he and the Dispatcher attended an ODE seminar on T-2 Forms in June 2008.

The supporting documentation for the T-1 information for FY 2007-08 showed data to be reliable; however ODE assisted the District in developing its reports and ensuring their accuracy. ODE also assisted the District in updating its FY 2006-07 T-1 data. During the course of the audit, auditors identified errors in the District's T-2 information for FY 2006-07. ODE also identified significant data problems in WHCSD's FY 2005-06 T-data but indicated the FY 2006-07 data had substantially improved. However, ODE is again reviewing the FY 2007-08 data because of errors it has identified in the data submission. Based on historical information and tests, the majority of WHCSD's transportation financial information was deemed unreliable. Where possible, auditors corrected data for use in this section. In other instances, the T-2 data was qualified and used with caution. Auditors used FY 2006-07 data in most instances because it was the most reliable of the three fiscal years included in this audit.

In addition, ODE flagged WHCSD's FY 2006-07 special needs transportation costs because they resulted in a cost per student of over \$99,000. A review of charges billed by WHCSD's contractor identified instances of overbilling which were deducted from the T-2 reimbursable expenses. While this reduced the total cost from \$1.2 million to \$526,000, ODE again rejected the T-2 submission. The District was required to review each IEP and identify the number of students who were actually eligible for and in need of special needs transportation. This reduced the number of riders from 115 to 80 and lowered the cost to \$366,000. Once WHCSD modified its T-2 report to reflect this figure, it was accepted by ODE and the special needs reimbursement was processed.

According to *Student Transportation in Ohio* (Legislative Office of Education Oversight, 2003), accuracy problems for transportation related data exist in a number of school districts, especially in terms of the number of students transported, daily bus miles traveled per student, and district transportation costs. LOEO recommended that ODE continue to work with school districts to improve the accuracy of the data submitted. The first step in ensuring accurate data is for a district to create and adhere to formal policies and procedures that govern the submission of district T-forms. ODE has acknowledged problems in reporting on T-forms (LOEO, 2003, and *Cleveland Municipal School District Special Investigation Report*, 2005) and Ohio school districts have experienced confusion over the interpretation of ODE instructions for completing the T-forms.

Policies and procedures form the framework for a system of internal controls. According to *Best Practices* (Ohio Office of the Auditor of State, Winter 2006), a well-designed internal control structure helps to reduce improper activities. Designing and implementing internal controls is a continuous process which requires risk evaluation, the design, testing and revision of procedures, and formal monitoring. Also, as conditions change, control procedures many become outdated and inadequate. Management must therefore anticipate that certain procedures will become obsolete and modify internal controls systems in response to these changes. Carefully designed internal controls can also help management provide a reasonable level of assurance that proper reporting is occurring.

Because WHCSD does not have a system of internal controls, the ODE procedures and methodology for reporting staffing and cost data on the T-forms has not been fully effective in ensuring the submission of accurate information. Furthermore, because WHCSD does not have a system for reviewing T-data accuracy and completeness, it has submitted incorrect information to ODE. Not only could this affect future reimbursements, but also it has hindered District administrators' ability to track and manage operations and costs. This is reflected in the low ridership and high costs of operations shown in **Tables 5-1** and **5-2**. The District could implement an appropriate system of internal controls within existing resources using the ODE training, as well as on-line and direct guidance and assistance.

R5.4 The District should update its procedures for declaring a student impractical to transport to ensure compliance with State law. It should develop a formal process which meets ORC requirements to ensure that it applies appropriate standards in making its determination, and submits the list of students declared impractical to transport in a resolution for concurrence to the Educational Service Center of Cuyahoga County. The District should request technical assistance from ODE to ensure that its revised procedures meet all statutory and rule requirements.

WHCSD declares students attending a non-public or community school as impractical to transport and offers payment in lieu to the affected parents. For FY 2008-09, it applied this standard to all students attending schools other than WHCSD. Administrators indicated that the District did not consider alternative transportation methods⁷ provide transportation services to eligible students. The District does not document the reason each student was determined impractical to transport and does not submit a resolution declaring the impracticality of transporting students to the Educational Service Center of Cuyahoga County for concurrence as required under ORC §3327.02.

In FY 2007-08, 117 WHCSD students received payments in lieu of transportation and the District reported that it is not transporting any students to community or parochial schools. It did not conduct assessments of the options for providing transportation. The District's Board of Education approved a list of students declared impractical to transport that attend approximately 30 different schools. District administrators stated they were not aware that if students are eligible for transportation⁸ then the District should attempt to provide transportation service and that the payment in lieu is meant to be an option of last resort.

According to the Business Manager, WHCSD follows a process to determine if transportation is practical. He indicated that the process begins with an inquiry from a parent about their child's eligibility for transportation services. Auditors requested a copy of the application. The form received appeared to be a letter identifying the student and requesting the parent agree to accept payment in lieu of transportation.

It was further explained that the District determines student eligibility by determining if the school the student is attending is within the 30 minute requirement for transportation, and if transporting that student would be a hardship on the District. No records could be produced to document how students were identified, the methods used to determine

⁷ These could include yellow bus services, public transit, taxi service, or contracts with other school districts or private vendors.

⁸ Students are eligible for transportation if they attend a school approved by the State Board of Education, meet the District's eligibility based on its transportation policy, and the school being attended is reachable within 30 minutes by direct travel. If these standards are met, then the staff at the public school district is to determine the most appropriate and legal mode of transportation available for the pupil.

impracticality, and options considered. Finally, the District indicated that it provides written notification to parents that it is impractical to transport their student and parents submit a written response indicating their agreement or disagreement with the District's decision. This step in the process is fulfilled through the "application". District administrators indicated there is an appeal process but no documentation of the procedure was provided.

Although WHCSD reported that its decision to offer a student payment in lieu of transportation is made on a case by case basis, no documentation was provided to support the impracticality of transport or any options for each student declared impractical. Board minutes contain a code reference and a list of students' names but supporting documentation was not provided to auditors. Parents also indicated that the process is confusing and those interviewed indicated they were unsure of the decision-making process or how to appeal the decision.

ORC §3327.02 (A) includes a list of factors schools may consider in determining impractical transportation.⁹ ORC § 3327.02 also outlines the steps the board of education should follow in determining impracticality and offering payment in lieu of transportation. These are as follows:

- Pass a resolution declaring the impracticality of transportation;
 - The resolution must include each pupil's name and the reason for impracticality.
- Submit the resolution for concurrence to the educational service center that contains the local district's territory.
 - If the educational service center governing board considers transportation by school conveyance practicable, it shall so inform the local board and transportation shall be provided by such local board.
 - If the educational service center board agrees with the view of the local board, the local board may offer payment in lieu of transportation as provided in this section.

District administrators stated that they were unaware of the requirements to inform the ESC of the District's decision to declare a student impractical to transport. Providing the resolution to the Educational Service Center of Cuyahoga County would help bring WHCSD into compliance with that specific requirement regarding payment in lieu. Furthermore, the District should establish a formal process that documents the decision made for each student and the factors considered, including alternative transportation,

⁹ These include time and distance, the number of pupils to be transported, the cost of providing transportation, whether similar or equivalent transportation is provided to other eligible pupils, whether and to what extent the additional service unavoidably disrupts current transportation schedules, and whether other reimbursable types of transportation are available.

when declaring the student impractical to transport. Finally, WHCSD could improve its communication of the process to parents and staff to ensure consistency in its treatment of students being transported to chartered non-public and community schools. The District should consider requesting technical assistance from ODE's Pupil Transportation Department.

Operations

R5.5 WHCSD should increase its bus utilization to the national benchmark of 100 riders per bus (50 riders per tier). This would enable the District to reduce transportation expenditures and shift financial resources towards other priorities. In order to increase utilization, the Transportation Supervisor should actively track bus capacity by completing quarterly rider counts and recalibrating routes accordingly. The Transportation Supervisor should evaluate all bus routes in the District and assign an official time for each route. To better organize routing information and achieve higher levels of efficiency, WHCSD might benefit from automating the routing process. An additional examination of routes to identify opportunities for the use of public transit would also benefit the District.

After completion of audit fieldwork, the District reported that it will reduce its fleet by one bus for the 2009-10 school year.

WHCSD transports 66.1 riders per bus, a decrease of 15 percent from FY 2006-07. According to the Transportation Department Dispatcher, this decrease resulted from a dramatic increase in the use of payment in lieu of transportation for students attending non-public or community schools. If the District's special education and vocational school routes are included in the analysis, the riders per bus drops to 56.3. Although total ridership dropped from 676 to 563 between FY 2006-07 and 2007-08, the number of buses increased from 9 to 10.

District routes are determined using a manual system. Routes and times are approved by the Board prior to the start of school each year. The Transportation Supervisor stated that he monitors ridership on a regular basis throughout the year and adjusts routes as the situation arises. However, he does not conduct additional formal counts to determine if shifts in ridership have occurred that might warrant adjustments to the routes or fleet. In addition, the District was unable to provide documentation that ridership was monitored on a regular basis or that changes in operating practices (routes, times, or number of buses used) had occurred. Board policy permits changes in transportation time schedules and routes for safety, cost-effectiveness, or other reasons. The administration is responsible for making such recommendations to the Board.

Some WHCSD buses make several shuttle runs to various locations, including hourly runs to Cuyahoga Community College (Tri-C). Although the Board has approved the use of bus passes and public transit is available throughout the District, the Transportation Department has not used this option to serve alternative locations. Several urban school districts provide bus passes to high school students and use public transit as the primary bus service for these students.

According to *Hidden Savings in Your Bus Budget* (American Association of School Administrators (AASA), 2005), an effective pupil-to-bus ratio should average at least 100 pupils on a double route, two-tier bus system. Actual capacity utilization should be measured with 80 percent of rated capacity as a goal.

Several Ohio school districts have achieved the AASA recommended level of efficiency. For Example, Anthony Wayne Local School District (Lucas County) reported transporting 100.2 riders per bus on a two-tiered system in 2007-08. It is able to achieve high ridership through active management of its bus routes. Its Transportation Director takes an active role in minimizing the “lay-over” or “down-time” of drivers by using a time chart aspect of the District’s routing software to visualize and minimize the gaps in morning and afternoon runs. By doing this, the Director reduces the actual driver time and minimizes staff costs. In addition, the District requires high school students to request transportation. Students who do not submit a form will not have a seat assigned and routing will not include those individuals. Students can resubmit the form throughout the year and receive transportation with only 24 hour notice.

Cincinnati City School District also uses automated routing to help provide services for its large student enrollment. Although Cincinnati uses several contractors to provide services, its Transportation Department uses automated routing software to actively manage routes and achieve more efficient operating levels. It also conducts student counts during May, requiring bus drivers to count each student via attendance sheets generated by the District’s routing software. The District reviews the count and in accordance with its policy, gives the parent or guardian a deadline to request services for the next school year. Later in the summer, the District plans its routes for the upcoming school year in order to be ready to provide transportation services on the first day of school.

In order to meet expected service levels but maintain its operating efficiency, Cincinnati re-adjusts its routes on two-week intervals during the entire school year. Daily counts are taken by each driver and compared to student services information to make sure the student is assigned to the correct route and school. Once the data is entered into the system, the District can then adjust routes to provide efficient services and lower costs by limiting the number of routes needed for transportation without reducing quality. Students on the roster who do not use the bus service on a regular basis are removed from the route and parents are informed of the change. Finally, Cincinnati uses its routing software to

plot schools and bus stops. As bus stops and distance traveled (board policy) are the main contributors to the cost of transportation services, any reduction in the number of stops and routes contributes to cost savings. These management techniques have helped the Cincinnati City School District achieve operating efficiency levels 14 percent higher than other urban districts.

The ODE Pupil Transportation Department recommends districts review all routes on a regular basis. A route review would include verifying the ridership as well as accuracy of the route itself, including directions and various timing points. There are a number of viable methods for doing this, including driver reports, tests of the validity of timing points, and the use of onboard monitoring equipment. Inputting data into an automated system helps districts better manage route and timing point information. *A Method for Evaluating of School Bus Routing – A Case Study of Riverdale, New Jersey* (Transportation Research Board, 2001) found that, of three accepted methods of routing, automated routing generated the highest degree of efficiency and, correspondingly, the lowest cost. Although Riverdale is a small district in New Jersey (about 200 students transported), routing software generated efficiencies that, while smaller scale, were comparable to larger districts.

WHCSD's low riders per bus ratio is a primary contributor to the very high expenditures-per-bus shown in **Table 5-2**. WHCSD could reduce operating expenditures by achieving a riders per bus ratio similar to the benchmark established by AASA. In order to accomplish this, the District would need to eliminate 2 buses,¹⁰ which would bring its riders per bus ratio to approximately 92. In addition, it could purchase routing software¹¹ to streamline the routing process for a one-time cost of about \$10,000 and an annual maintenance fee of \$2,000.

Financial Implication: If the District eliminated two buses, it would save approximately \$86,000 based on FY 2006-07 costs, exclusive of the cost of maintenance and repairs and bus insurance. If the District purchased routing software, it would incur a one-time cost of about \$10,000 and an annual maintenance fee of \$2,000 (see also **R5.6**).

R5.6 The Transportation Department should implement a preventive maintenance (PM) program to ensure scheduled maintenance is completed based on manufacturer recommendations. The Business Manager should closely monitor and evaluate the PM program to ensure buses pass the Ohio Highway Patrol inspection. In conjunction with the PM program, WHCSD should fully implement an inventory program that tracks new and used parts and equipment, and ties this information to completed repair work. The Transportation Supervisor should also conduct an

¹⁰ This excludes the special and vocational education buses.

¹¹ Some routing software companies will, as a component of system installation, load district data into the program so that the software is immediately ready to use.

annual inventory to ensure that the appropriate number of parts is being maintained in the inventory. Because of the difficulties WHCSD has had in maintaining its buses and accurately accounting for its inventory, it should invest in an automated vehicle maintenance management program.

During the audit, the District implemented a preventive maintenance program and indicated that all vehicles passed inspection during a recent spot check. The Transportation Supervisor oversees inventory and all purchase requests are reviewed by the Supervisor and the Business Manager prior to approval. The Transportation Supervisor has been directed to explore vehicle management software programs.

WHCSD has a full-time mechanic and a part-time mechanic's helper, although the mechanic indicated some bus drivers work overtime on occasion to assist in completing repairs (See **R5.7**). Most maintenance is conducted in-house, particularly routine maintenance, with a smaller number of major repairs sent to the local bus supplier. In FY 2006-07, the District's maintenance and repair costs per active bus were 300 percent higher than the peer average. WHCSD spent almost \$20,000 per bus on maintenance, versus about \$5,000 for the peers. The average age of the fleet is about 5.3 years, which should result in much lower maintenance and repair costs. By comparison, most districts' bus fleets average about 8.5 years of age.

According to the District's mechanic, these high costs were driven by two buses that went in for repair frequently during this timeframe. The District purchased two buses in FY 2007-08 but expenditures reportedly decreased by only 16.8 percent (to about \$15,000 per bus) based on the District's T-2 report.¹² Although the mechanic conducts price comparisons, this seems to have little impact on the costs which greatly exceed the peers. One cause is bus maintenance salaries, which accounted for 44 percent of the total maintenance and repair costs. (See also **human resources** for a review of District salaries).

The Transportation Department keeps a manual file on each bus with records of inspections and preventive maintenance. The District implemented a 10-day rotation PM program in February, 2008 in an attempt to improve the condition of the buses for the Ohio Highway Patrol (OHP) inspection. Under the program, a bus was taken off the road every 10 days, inspected for safety problems, and provided routine maintenance. However, only two buses passed the OHP inspection completed on July 29, 2008 and the District was considering terminating the program. The 10-day rotation program has been costly to the District, requiring routine maintenance much more frequently than needed, and it did not achieve the intended results.

¹² The FY 2007-08 T-2 data is considered unreliable and is under review by ODE. Significant errors were identified in the course of the audit.

The Transportation Department is in the process of implementing an inventory control procedure worksheet for tracking repairs and parts. To implement the inventory control procedure worksheet, it has started counting and re-stocking supplies and equipment. The next step planned is to input supplies and equipment onto the inventory control worksheet to track parts. The District is considering maintaining this in a spreadsheet.

According to *Public Management Practices Manual* (American Public Works Association (APWA), 2003), equipment and fleet management involves the effective management of equipment and fleet services by maintaining equipment and parts inventories, performing equipment inspections, scheduling preventive and normal maintenance, recording maintenance history, analyzing equipment costs and defining replacement cycles, drafting specifications and procuring and maintaining all mechanized equipment. Automated or manual equipment or fleet management systems allow management to maintain cost accounts for personnel and equipment and control daily maintenance work-flow. Equipment inspections are performed by scheduling maintenance and servicing equipment at intervals compatible with manufacturers' recommendations or based on equipment usage. This information can typically be found in manufacturers' specifications. Because of WHCSD's high costs and poor performance in this area, an automated system, which can be used to track planned maintenance, breakdown repairs, and associated labor and parts costs, is recommended.

Also, APWA describes a parts inventory program as one that tracks new and used parts, tires and batteries used in the maintenance and repair of equipment. The inventory assists in monitoring stock levels, turnover frequency, and costs, and should be routinely updated. A parts inventory program should identify the following information:

- Part received along with the cost;
- Vendor that provided the part;
- Date received;
- Bin location where the part is stored;
- Quantity issued;
- Vehicle on which the part was used; and
- Mechanic completing the repair.

An automated vehicle maintenance system can also be used to track inventory, automatically deducting parts used in repairs as the repair information is recorded. WHCSD should consider using an integrated system to ensure appropriate internal controls over part and supplies. An inventory system would also help the Transportation Department ensure that parts are appropriately accounted for and not misappropriated.

Because WHCSD has not monitored its PM program and has engaged in costly maintenance practices, it has expended substantially more than similar districts on its

transportation function. Rigorous implementation of a reasonable PM program based on recommended practices, coupled with an automated vehicle maintenance management system that will track repairs and inventory would help improve internal controls over this function. Likewise, improved supervision of the Department's activities by District administrators would ensure that costs are monitored and, when they appear to be excessive in relation to common practices, terminated or modified to ensure scarce resources are not wasted. If WHCSD can reduce its per-bus maintenance and repair expenditures to levels more comparable to the peer average, for example 30 percent higher than the peers or \$6,500 per bus, it could save about \$83,000 based on FY 2006-07 costs.

Financial Implication: Since about 44 percent of the cost of maintenance and repair is salaries and overtime, which is addressed in **R5.7**, the District could potentially save about \$46,000 in other costs associated with this function if it were to reduce these costs to 30 percent above the peers. The implementation cost for automated vehicle maintenance management software would include a one-time cost of about \$3,000 and annual maintenance fees of \$500 to \$900. Some routing software has integrated vehicle maintenance and inventory programs and WHCSD should determine if a combined package is more cost effective to purchase (see **R5.5**).

R5.7 In order to bring the District's overall transportation costs more in line with the peers, WHCSD should increase the management and oversight of the Department, specifically by monitoring employee productivity and reducing overtime. In the area of overtime, it should use a substitute pool, monitor overtime use, and schedule routes more efficiently.

In addition, the District should attempt to renegotiate its classified collective bargaining agreement to remove the provision that guarantees drivers five hours per day. This provision causes the Transportation Department to schedule most of the bus drivers close to 40 hours per week for routine trips, which increases overtime if drivers run additional routes for non-routine trips. Hours charged by drivers could also be reduced through improved oversight of driver activities.

Although WHCSD's costs are higher in almost all comparison categories, the major cause of its high per-bus costs and high overall transportation expenditures is salaries and benefits. On a per bus basis, WHCSD spends \$40,119 in salaries compared to \$18,573 for the peers. Benefits costs are equally high, \$24,361 per bus for WHCSD versus \$8,518 for the peers. In these two categories, WHCSD spends more than twice as much as the peers. High personnel costs are related high salary and benefit costs (see **human resources**), inefficient routing (see **R5.5**), high overtime, the terms of the District's collective bargaining agreement, and limited or ineffective oversight of the service.

The collective bargaining agreement¹³ guarantees drivers five hours per day, with an additional two hours guaranteed to drivers with noon runs. Regular drivers who do not have a mid-day route are eligible to substitute for an absent regular driver. However, a majority of WHCSD drivers work about 40 hours per week. The District's staffing list indicated that four of the drivers routinely work five hours, while six of the drivers routinely work seven or eight hours. However, a review of the routing sheets and accompanying schedules indicates that several of the drivers may be working hours in excess of those needed to complete their routes. The analysis found that, in aggregate, drivers work about 330 hours per week (including half-time personnel). However, the route review indicated that routes could likely be completed in about 285 hours per week, a difference of about 45 hours or roughly the equivalent of one full-time employee. Based on the average hourly cost, this equates to about \$30,400 per year.

Overtime as a percent of salaries was 6.8 percent for drivers (or about \$1,600 per driver) and 16.6 percent for bus maintenance (about \$13,000 for the mechanic and helper combined). These high percentages of overtime add to the District's already high salary costs. However, a review of timesheets for one pay period also found that 7 out of 11 staff members received overtime. As a majority of drivers work 40 hours per week, overtime costs are aggravated by a clause in the negotiated agreement that allows drivers to bid by seniority for field trips. Therefore, District management cannot distribute the work to reduce overtime. The estimated additional cost to the District for overtime is about \$29,000 annually. (See also **human resources** on leave usage.)

The Transportation Department does not use a substitute pool. The Department uses a stand-by substitute who works every day because bus drivers frequently call off sick. The Transportation Supervisor, Dispatcher, and Mechanic are licensed drivers and, because the District has trouble finding substitute drivers, fill in when substitutes are needed.

Considering the high cost of transportation services in WHCSD, it is important that the District take steps to better manage its transportation-related personnel costs. Reducing the aggregate number of hours spent driving routes through more aggressive route management (see **R5.5**) and limiting overtime would help the District better control its personnel costs and productivity. A higher level of oversight and supervision would help the District better control the time worked by drivers and other transportation personnel and ensure that the time paid by the District was used for productive work.

Financial Implication: If WHCSD could reduce driver and mechanic overtime to 2 percent, it could save about \$22,500 annually, based on FY 2007-08 salaries and wages. If it could renegotiate the provision for guaranteed hours, better balance driving time, or

¹³ The bus drivers are represented by the Ohio Association of Public School Employee Chapters #318 and #368, AFSCME, AFL-CIO.

improve the monitoring and time efficiency of its routes, the District could potentially save an additional \$30,400. This would result in total annual savings of \$52,900.

Special Education

R5.8 WHCSD should include the Transportation Supervisor or designee in the individualized education plan (IEP) development process to ensure that all available options for transporting special needs students are considered. The Transportation Department representative should ensure that any required specialized transportation service is feasible and can be provided effectively by the District's transportation system.

WHCSD does not include any Transportation Department personnel in special needs IEP development. Also, Treasurer's Office personnel have not been included in the T-reporting process to assist in prorating special needs transportation costs. During the audit, WHCSD began to include the Treasurer's Office in the compilation of T-report cost data; however, personnel in the Office were not familiar with the process to prorate costs for special needs transportation.

Prior to FY 2007-08, Special needs riders were either transported by the District or solely by contractors.¹⁴ In FY 2006-07, WHCSD reportedly contracted for transportation services for 80 special needs students. In some cases, children who were not eligible received specialized transportation from the contractors. Although the District budgeted \$540,000 for its contracted service in FY 2006-07, it paid the contractors almost \$1.2 million for the services according to its financial reports.¹⁵ This equates to about \$15,000 per student.

In FY 2007-08, WHCSD changed contractors and began providing some special needs transportation in-house. Under the new contract, the District paid about \$6,800 per student for contracted services and about \$3,800 per student for in-house transportation. Nine riders were mainstreamed onto regular education yellow buses. An additional 29 students received transportation services on the District's new special needs bus while 46 students remained on contracted services.¹⁶ While this is a great improvement over the prior year's costs, ODE rejected WHCSD's T-2 report for FY 2007-08 because of high special needs transportation costs (above \$6,000 per student) and is conducting an in-depth review of the data.

¹⁴ The District's 2006-07 T-report shows no mainstreamed special needs riders.

¹⁵ The District's T-report for FY 2006-07 reported this cost as \$366,000.

¹⁶ This information was not reported on the District's T-1 report. Instead, the information was assembled through alternative data sources and interviews.

In contrast to WHCSD, the peers use contracted transportation on a much more limited basis. From peer T-reports, it appears most students are mainstreamed and only a small portion of their costs are related to Type VI transportation (special needs contracted transportation). The peers typically spend about \$3,000 per special needs rider, based on FY 2006-07 cost data.

Special needs riders are typically more costly to transport than regular needs students because of additional routes, driver time, and/or personnel. OAC § 3301-51-10(C)(2) requires transportation personnel to be consulted in the preparation of the IEP when the IEP requires transportation. Including transportation department personnel in IEP development can help improve the nature of services provided, as well as the cost and flexibility of the services. Springboro Community School District (Warren County) uses a model process to assign special needs students to various forms of transportation. First, the Special Needs Department determines if the student needs modified transportation and, if so, notes that modified transportation is required in the IEP. The Special Needs Department does not determine the type of modified transportation or note any suggestions. Instead, the information is forwarded to the Transportation Department where those with expertise in transportation options determine the mode of transportation that best meets the needs of the affected student. Depending on the severity of the disability, the Transportation Department may also meet with parents to help determine the most appropriate form of transportation. In Springboro, 99 percent of special needs riders were mainstreamed onto District regular yellow bus service.

WHCSD could consider following a similar practice and begin reviewing IEPs for the appropriateness of the modified transportation type provided. It should seek to mainstream students onto regular yellow bus service whenever possible. As it reviews IEPs and transportation service levels, it should closely and accurately track the costs for special needs transportation (including pro-rated costs) to ensure that its expenditures do not grow in this area. It should set a target of reducing its costs for special needs riders to the peer average through more intensive management of its modified transportation service levels.

Financial Implication: If WHCSD were able to reduce its costs for special needs riders to the peer average, it would save approximately \$175,000 annually.

Financial Implications Summary

The following table summarizes the estimated annual cost savings, and one-time and annual implementation costs identified in this section of the report.

Table 5-4: Summary of Financial Implications for the Transportation Section

| Recommendation | Annual Cost Savings | One-time Implementation Cost | Annual Implementation Costs |
|---|----------------------------|-------------------------------------|------------------------------------|
| R5.5 Eliminate 2 buses | \$86,000 ¹ | | |
| R5.5 Purchase routing software | | \$10,000 | \$2,000 |
| R5.6 Reduce maintenance costs through improved PM and management | \$46,000 | | |
| R5.6 Purchase vehicle maintenance management software | | \$3,000 | \$900 |
| R5.7 improve personnel management practices and reduce overtime | \$52,900 | | |
| R5.8 Reduce special needs transportation costs through recommended practices | \$175,000 | | |
| Total | \$359,900 | \$13,000 | \$2,900 |

Source: AOS recommendations

¹ Annual savings based on FY 2006-07 transportation costs reported by WHCSD on its T-2 form.

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Food Service

Background

This section of the performance audit focuses on the operational efficiency of Warrensville Heights City School District (WHCSD or the District) food service operations. The financial condition and operating procedures of the District's food service program were analyzed for the purposes of developing recommendations for improvements in processes and identifying opportunities to increase efficiency. The District's operations were evaluated against leading practices and operational standards including the National Food Service Management Institute (NFSMI), the United States Department of Agriculture (USDA), and the Government Finance Officers Association (GFOA), as well as surrounding and peer school districts.¹

Organizational Structure and Operations

The Food Service Department consists of 18 employees, including the Food Service Supervisor (the Supervisor) and 17 food service employees (e.g., cooks, servers, etc.). The District has not developed an annual budget or a five-year forecast for the Food Service Department. Furthermore, the Treasurer's Office does not provide the Department with monthly or quarterly budget reports. However, monthly profit loss statements are maintained by the Supervisor (see **R2.4**). In FY 2008-09, the Supervisor implemented a reduction in the Department's labor hours per day in order to reduce costs. The reduction of labor hours will bring the District's meals per labor hour (MPLH) in line with the peer average. **Table 6-1** displays the food service operation's efficiency compared to NFSMI standards prior to the FY 2008-09 reductions.

Table 6-1: FY 2007-08 MPLH Comparison

| Building | Meal Equivalents Served/Day | MPLH | MPLH NFSMI Standard | MPLH Over/(Under) NFSMI Standard |
|---------------|-----------------------------|-------|---------------------|----------------------------------|
| Eastwood | 168 | 14.0 | 12.0 | 2.0 |
| John Dewey | 343 | 14.0 | 19.1 | (5.1) |
| Randallwood | 358 | 16.0 | 19.9 | (3.9) |
| Westwood | 295 | 13.0 | 18.5 | (5.5) |
| Middle School | 342 | 37.0 | 19.0 | 18.0 |
| High School | 330 | 29.0 | 18.4 | 10.6 |
| Total | 1837 | 123.0 | 106.8 | 16.2 |

Source: Warrensville Heights City School District, Ohio Department of Education, and NFSMI.

¹ See **executive summary** for listing of districts used as peers for the performance audit.

As **Table 6-1** shows, to meet NFSMI standards, the District would need to cut 2.0 hours at Eastwood, 18.0 hours at the Middle School, and 10.6 hours at the High School.² However, the District is operating with 14.5 less MPLH at three of the elementary schools. WHCSD should be commended for operating three of its six food service facilities with fewer staff than the national standard. The reduction of approximately 31 labor hours brought the District's operations in line with best practices.

The Food Service Department has not developed a strategic plan that guides operations and decision making, nor has the District examined options to privatize the food service operation, which should be a component of the strategic plan (see *subsequent events* in the **executive summary**). Moreover, the Supervisor does review program performance such as total labor hours needed per day, profit/loss statements, and participation rates. The Supervisor affirmed the importance of a strategic plan and performance measures, and stated that a strategic plan would be helpful in managing planning and budgetary processes (see **R6.1** and **R2.1**). Similarly, the Food Service Department's existing manuals are outdated. The Supervisor indicated the Department's goal is to have new manuals by the middle of FY 2008-09 (see **R6.2**).

The District operates a point-of-sale system which automates cash handling and tracks student accounts, including eligibility for free and reduced priced meals. WHCSD also uses the point-of-sale system to prepare daily participation reports and submit data to the Ohio Department of Education (ODE). Although the District has received some input on the food service function and meal quality through parent response letters and meetings with student body representatives, the total participation rate is approximately 2 percent lower than the peer average (**R6.3**). At its July 2008 meeting, the Board approved an increase of \$0.25 in meal prices (from \$2.25 to \$2.50) for middle and high school students, starting in FY 2008-09. The increase will bring WHCSD's meal prices more in line with the surrounding districts and is a strategy to increase revenues to help the Food Service Department become self-supporting. Due to the lack of internal controls, the District's FY 2004-05³ financial audit noted findings and questioned costs for federal awards related to the Catalog of Federal Domestic Assistance Nutrition Cluster (10.553, 10.555). The audit revealed the District had not maintained appropriate documentation to support its claims. It overstated the number of reported free or reduced price lunches versus the number authorized to be served. Due to this overstatement, AOS projected overpayments of \$148,964 to the District (see **R6.2**). The Supervisor reported that supporting documentation is now being attached to each claim and the Department is updating its point of sale system daily with changes in student information. In addition, all electronic supporting documentation for claims is backed up by the District's Technology Department and its point of sale vendor.

² WHCSD operates a separate a la carte line in both the Middle School and High School which contributes to the higher MPLH in those buildings.

³ At the time of reporting, the District's FY 2005-06 and FY 2006-07 financial records had not been audited due to the lack of acceptable financial reporting and documentation practices.

Financial Condition

The Food Service Fund is an enterprise fund, which means it is intended to be self-supporting. The Fund should function similar to a private business fund and rely on charges and reimbursements to cover the costs of operations. **Table 6-2** illustrates WHCSD's Food Service Fund revenues, expenditures, and other financing activities for FY 2004-05 through FY 2006-07.

Table 6-2: WHCSD Food Service Fund, Three-Year History

| | FY 2004-05 | FY 2005-06 | % Change | FY 2006-07 | % Change |
|---|-------------------|--------------------|-------------|--------------------|---------------|
| Operating Revenue | | | | | |
| Student Charges | \$240,901 | \$201,802 | (16%) | \$171,560 | (15%) |
| Non-Operating Revenue | | | | | |
| Earnings on Investments | \$0 | \$0 | 0% | \$0 | 0% |
| Restricted Grants-in-Aid (State Sources) | \$92,654 | \$28,444 | (69%) | \$36,394 | 28% |
| Unrestricted Grants-in-Aid (Federal Source) | \$587,004 | \$635,394 | 8% | \$562,293 | (12%) |
| Restricted Grants-in-Aid (Federal Source) | \$0 | \$0 | 0% | \$0 | 0% |
| Refund of Prior Years Expenditures | \$0 | \$0 | 0% | \$0 | 0% |
| Total Revenue | \$920,559 | \$865,640 | (6%) | \$770,247 | (11%) |
| Operating Expenditures | | | | | |
| Personal Services - Salaries | \$351,480 | \$389,370 | 11% | \$373,161 | (4%) |
| Employees Retirement and Insurance | \$186,012 | \$190,743 | 3% | \$219,371 | 15% |
| Purchased Services | \$9,488 | \$14,522 | 53% | \$45,457 | 213% |
| Supplies and Materials | \$390,098 | \$458,880 | 18% | \$440,714 | (4%) |
| Capital Outlay | \$1,190 | \$6,346 | 433% | \$2,441 | (62%) |
| Other Objects | \$1,644 | \$1,644 | 0% | \$1,776 | 8% |
| Non-Operating Expenditures | | | | | |
| Refund of Prior Years Receipts | \$0 | \$0 | 0% | \$0 | 0% |
| Total Expenditures | \$939,912 | \$1,061,504 | 13% | \$1,082,921 | 2% |
| Revenues Over (Under) Expenses | (\$19,353) | (\$195,864) | 9% | (\$312,673) | 1% |
| Transfers/Advances | | | | | |
| Transfers-In | \$0 | \$0 | 0% | \$0 | 0% |
| Advances- In | \$110,000 | \$195,000 | 77% | \$0 | (100%) |
| Operating Transfers-Out | \$0 | \$0 | 0% | \$0 | 0% |
| Advances-Out | \$0 | \$0 | 0% | \$0 | 0% |
| Net Transfers/Advances | \$110,000 | \$195,000 | 77% | \$0 | (100%) |
| Revenues Over (Under) Expenses (Including Transfers) | \$90,647 | (\$864) | (1%) | (\$312,673) | 360% |
| Beginning Fund Balance | \$10,509 | \$101,155 | 863% | \$100,291 | (1%) |
| Ending Fund Balance | \$101,155 | \$100,291 | (1%) | (\$212,383) | (312%) |
| Reserve for Encumbrances | \$43,619 | \$105,557 | 142% | \$132,648 | 26% |

Source: WHCSD's 4502 reports

Note: The District's FY 2007-08 financial data was not available until after the audit period.

The Food Service Department had a net operating loss of approximately \$19,000 in FY 2004-05, \$196,000 in FY 2005-06, and \$313,000 in FY 2006-07. Advances were made from the General Fund to cover deficits in FY 2004-05 and FY 2005-06. According to the Treasurer, advances were not made in FY 2006-07 because the transfers “masked the Food Service deficit spending”. However, AOS has made adjustments to the District’s five-year forecast (**Table 2-7 in financial systems**) to account for the transfer needed to cover prior deficits. Operational changes, such as the reduction in MPLH and the implementation of performance audit recommendations, should help reduce or eliminate the need to transfer funds to the Food Service Department in the future.

Audit Objectives for the Food Service Section

The following questions were used to evaluate the food service operations within the District:

- What is the financial status of the District's Food Service Fund?
- Has the program developed strategic or operational plans consistent with District plans and the program budget, and have they been approved by the District?
- What steps is the District taking to minimize the cost of food service items and does the District charge back for utility and lunch monitor costs?
- Are the District's resource allocation and management processes comparable to recommended practices and benchmarks?
- Does the District effectively collect and use program data for decision making?
- What can the District do to maximize program participation?

Recommendations

Planning

R6.1 As a component of its District-wide strategic plan, WHCSD should develop a food service strategic plan. This plan will help guide food service operations and ensure the enterprise fund is self-sufficient (see also R2.1). Additionally, the District should include in the plan an annual evaluation of the effectiveness of service delivery in comparison to outside entities. Comparing the program costs and operational effectiveness to food service management companies will illustrate the effectiveness of the District's management of the food service function and will help determine if an operational change is necessary.

Prior to release of the audit report, the District submitted a draft Food Service Strategic Plan to ODE.

The Food Service Department has not developed a long-range plan that guides operations and decision making, nor has the District examined options for privatizing the food service operation. However, the Food Service Supervisor indicated that one of the Department goals is to develop a strategic plan. The Food Service Supervisor is new to the District and has not had the time to implement several programs.

District Leadership, Organization, and Management (Texas School Performance Review, 2003) provides guidelines for the development of a strategic plan related to food service operations. The guidelines suggest several steps in developing a plan to guide the operation of the Food Service Department. These include the following:

- Food Service mission and goals;
- Facility plans as they pertain to kitchens and cafeteria;
- Department preventative maintenance schedule or plan;
- Cafeteria capital improvement plans;
- Budget planning documents;
- Budgets for food service for the last five years;
- List of student and staff meal prices;
- Paid and reduced price meal participation rates for the last three years;
- Standard operating and management reports for the last two years, including profit and loss statements, budget variance reports and other financial reports used regularly for financial management;
- Annual budgets and financial records showing budgeted and actual costs and revenues for food service for the last three years and showing the fund balance;

- Any recent Food Service Department customer survey instruments and results; and
- Student, parent, teacher, and staff survey results as they pertain to food service.

Within the strategic plan, the District should include a section that evaluates the competitiveness of the District's food service operations when compared to the cost of an alternative delivery method. *Best Practices in Public Budgeting: Develop Program and Evaluate Delivery Mechanisms* (GFOA, 2000) states that entities should evaluate alternative delivery mechanisms to ensure the best approach is selected for delivering a service. A government should institute a process to review existing service delivery methods in the context of how well they meet programmatic and operating policies and plans. The process should include an examination of how a government traditionally provides the service versus whether the service could be delivered more effectively or more efficiently if provided in a different way, either by the government itself or by entities outside of the government. Considerations in evaluating service delivery mechanisms, whether provided directly by a government or contracted out, include:

- **Cost of service**, including short and long-term direct costs, costs to administer and oversee the service, impact on rates and charges, and impact on costs of other government services.
- **Service quality and control**, including safety and reliability, ability to control service levels and who receives the service, ability of the government to make internal changes to improve its own performance, ability to change the delivery mechanism in the future, and risk of contractual nonperformance and default.
- **Management issues**, including the quality of monitoring, reporting, and performance evaluation systems, public access to information, and ability to generate or sustain competition in service delivery.
- **Financial issues**, including impact on outstanding debt and grant eligibility.
- **Impact on stakeholders**, including government employees, customers, and taxpayers.
- **Statutory and regulatory issues**, including impact on federal and state legal and regulatory requirements, and liability.

Strategic and long-term planning documents for the food service operations would help WHCSD forecast expenditures more accurately and better tailor operations to its business environment. Furthermore, increased expenditure planning would help the District prioritize its goals and allocate its resources to achieve key objectives. Ultimately, a

strategic plan would help direct Departmental expenditures in a manner consistent with the District-wide strategic plan while eliminating much of the inefficient use of resources associated with unplanned manpower and workload allocations.

Internal Controls

R6.2 WHCSD should develop a standard operating procedures manual that includes all operational processes such as controlling cash, ordering food and supplies, preparing and submitting reimbursement data to ODE, and approving students for free and reduced meals. Furthermore, the manual should incorporate any procedures necessary to address Board requirements or policies that pertain to food service.

Prior to release of the audit report, the District developed standard operating procedures and included those in the Departmental Hazard Analysis Critical Control Point plan which was included in the draft Food Service Strategic Plan (see R6.1).

The Food Service Department does not have an updated procedure manual. According to the Food Service Supervisor, existing manuals are outdated and lack procedures to ensure sound internal controls. The Food Service Supervisor has been with the District for less than one year and has not had the opportunity to update existing or create new manuals.

The Food Service Supervisor at Chardon Local School District (Geauga County) has developed a comprehensive operations manual that communicates critical areas of departmental operations to District food service employees. This manual outlines board policies, cash control; ordering, receipt and inventory procedures; production record keeping; sanitation and food safety; employee safety; and procedures for emergencies or in case of injury. This was developed using leading and recommended practices.

According to *HACCP⁴-Based Standard Operating Procedures* (USDA, 2005), standard operating procedures should be developed for all food service operations. These should include procedures for the following:

- Cleaning and sanitizing food contact surfaces;
- Controlling time and temperature during preparation;
- Cooking potentially hazardous foods;
- Cooling potentially hazardous foods;
- Date marking and ready-to-eat, potentially hazardous foods;
- Handling a food recall;

⁴ Hazard Analysis and Critical Control Point

- Holding hot and cold foods;
- Personal hygiene;
- Preventing contamination at food bars;
- Receiving deliveries;
- Reheating foods;
- Serving foods;
- Storing and using poisonous or toxic chemicals;
- Using and calibrating thermometers;
- Using suitable utensils when handling ready-to-eat foods;
- Washing fruits and vegetables;
- Washing hands; and
- Record keeping logs for food safety.

Moreover, ORC § 3313.815 requires that at least one employee who has received instruction in methods to prevent choking and has demonstrated an ability to perform the Heimlich maneuver to be present while students are being served food.

Implementing a formal manual that details how tasks are to be performed helps ensure quality and compliance and can serve as tool for staff training. Moreover, an easily accessible manual can serve as a communication tool between employees and supervisors. Because personnel changes are frequently unexpected and can result in a disruption of operations, written procedures can be used to assist and instruct employees who are new to their positions. Finally, veteran employees benefit from formal procedures as they can serve as a reference for day-to-day activities as well as unusual circumstances.

Participation Rates

R6.3 In order to maximize federal reimbursements and sales, WHCSD should formally solicit input from students and other stakeholders to identify areas which, if improved, would increase participation rates. Increased participation rates will help enhance revenues for the food services program and reduce its reliance on General Fund transfers.

During the audit the Food Service Supervisor began meeting with some stakeholders including high school students and the Student Council President in order to solicit feedback about the Food Service Operations from the stakeholders' point of view.

The District's average daily participation rate is about 12 percent higher than the peer average. Its free and reduced price eligible population is 64.2 percent of the average daily

participation. However, its overall participation rate is approximately 2 percent lower than the peer average. The Food Service Supervisor indicated the total participation rate in the food service program is low because of lower-than-average participation rates at Warrensville Heights High School and Middle School. This is partially attributed to the District's practice of permitting students to leave campus after their morning classes for work programs. Also, the Department has not implemented surveys to incorporate stakeholder input into meal planning, which often helps to improve participation rates. Lastly, the Supervisor noted the new requirements for direct certification⁵ may help the District identify additional students eligible for free and reduced price lunches, which would increase participation rates.

One method the District could use to increase participation is a customer satisfaction survey. According to *Recipes for Practical Research in Child Nutrition Programs* (NFSMI, 1998), school food service programs should seek customer feedback from students and parents. Surveys are one method for gathering information from a large group of people in a short period at moderate cost. Valid and reliable data gathered from students should be the basis for developing enhancements in school food service and nutrition programs. By evaluating customer feedback and working to continually improve operations, the school food service and nutrition program will ensure a sound customer base and financial stability. Surveys should be designed specifically for the population targeted and the objectives to be accomplished (students, parents, and teachers). In addition to standardized surveys, it is important to give customers an opportunity to make specific comments about the food service program (e.g, what is one thing that you would not change about the food service operation and one that thing should be changed?) NFSMI suggests a series of steps to successfully execute a survey including:

- Determining the objective of the survey;
- Gaining approval from the school community;
- Determining when the survey should be conducted;
- Determining how many individuals to survey; and
- Determining where the survey should be conducted.

Furthermore, *School Foodservice Management for the 21st Century* (Pannell-Martin, 1999) provides techniques beyond the traditional methods of questionnaires and surveys in order to communicate with consumers (students/parents/facility/staff). The additional techniques for communicating include (1) informal interviews of students and parents, (2) small-group discussions, (3) suggestion boxes, and (4) taste parties or sampling.

⁵ Direct certification is a cross match between district students and county departments of job and family services' eligibility roles.

The food service staff's ability to address customer concerns and increase program participation is limited without the information provided by the strategies described above. By garnering stakeholder input, District administrators will be better positioned to raise or maintain participation rates, and by extension, increase revenues to the Food Service Fund. Because food service operations include a fixed cost component, it is important the District maintain a high participation rate in the school lunch program to ensure a lower cost per meal.

Cost Allocation

R6.4 In order to have an accurate understanding of operational costs, WHCSD should charge all food service-related expenses to the Food Service Fund, regardless of the fund's ability to directly pay all costs. Allocating all food service expenses to the Fund will provide a more accurate financial picture which will, in turn, improve decision-making related to program operations.

WHCSD charges all related salary, benefit, equipment and supply costs to the Food Service Fund. However, utility costs such as electricity, and natural gas are not allocated to the Food Service Fund. Instead, they are completely paid from the General Fund.

Measuring the Cost of Government Services (GFOA, 2002), suggests that governments should measure the full costs of their services. 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 related to the operation of food service are to be paid directly into and disbursed from the Food Service Fund.

Even when the Food Service Fund faces impending deficits, it is still important to account for all costs. Not charging food service expenditures to the Food Service Fund results in an inaccurate depiction of food service costs. Accurately capturing all costs in the Food Service Fund would allow WHCSD to evaluate the true efficiency and performance of its food service operations and effectively plan for future needs (see **R6.1**). By increasing efficiency and participation rates, the Food Service Fund should be able to offset the additional cost of utilities and eliminate the need for future General Fund transfers.

Financial Implication: Reallocating utility expenditures to the Food Service Fund on a pro-rated basis would cause purchased services to increase by approximately \$45,000 in the Food Service Fund and decrease by the same amount in the General Fund.

Financial Implications Summary

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

Table 6-3: Summary of the Financial Implications for Food Service

| Recommendation | Annual Cost Savings |
|---|----------------------------|
| R6.4 Charge all food service related expenses to the Food Service Fund | \$45,000 |
| Total Estimated Savings | \$45,000 |

Source: AOS Recommendations

DISTRICT RESPONSE

District Response

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

As noted in the response, WHCSD does not agree with every conclusion drawn in the audit report. The peer districts used as a benchmark in the audit were selected by AOS as they represented a high level of efficiency and academic achievement. These districts have the same ODE typology classification as WHCSD and, in general, the same demographic factors. The purpose for using higher performing districts is to identify potential areas in which WHCSD could improve its operational efficiency and effectiveness. The selection of peers was discussed with District administrators during audit planning and throughout the audit. In addition to the peer districts, auditors augmented some analyses with additional comparisons to districts in Cuyahoga County and to State averages.

The number of special education teachers cited in the report was taken directly from WHCSD's EMIS report – the staffing level the District reported to ODE. The District indicates that during FY 2007-08 the actual number was less than that reflected in its EMIS report – this may be due to an error in the EMIS report or staffing reductions during the school year that are not reflected in EMIS. Concern about the reliability of the District's EMIS reports was noted in the report and a recommendation was made for the District to develop guidelines and procedures to ensure that accurate staff information is prepared and reported through EMIS (**R3.5**).

Although the District indicates that it has reviewed staffing levels and assigned square footage to its custodial staff, it has excluded head custodians from the benchmark calculation, citing job assignments as an impediment to accomplishing a higher workload. WHCSD is encouraged to use national benchmarks in determining future staffing levels to ensure it is efficiently using resources in this area. The NCES benchmark based referenced in this report includes all custodial positions in a school district and other Ohio school districts have achieved workloads over the NCES level. Finally, many other school districts employ head custodians who are responsible for a portion of the square footage cleaned. Options on how to fully implement this recommendation were discussed with WHCSD officials at the exit conference and no change to the report was warranted.

While the District indicates it complies with reporting requirements regarding students declared impractical to transport, the audit found gaps between District practice and the legal requirements. The audit recommends that the District seek technical assistance ODE's Pupil

Transportation Department to ensure its process is compliant with all requirements. No change was warranted in the report.

The report was updated to reflect efforts made by the District during the audit. These changes are noted following the applicable recommendation or are reflected in *subsequent events* in the **executive summary**. When changes to District operations were made in response to a draft recommendation, these are shown in bold text in the **executive summary** and specific report sections.

Warrensville Heights City School District
4500 Warrensville Center Road
Warrensville Heights, Ohio 44128
Office of the Superintendent
Mrs. Elaine Davis

June 3, 2009

The Honorable Mary Taylor, CPA
Auditor of State
Lausche Building, 12th Floor
615 Superior Avenue, NW
Cleveland, Ohio 44113-1801

Dear Auditor Taylor:

The Warrensville Heights School District has recently completed a Performance Audit coordinated by Fred Bartz and Kristi Erlewine of your office.

On behalf of the Board and staff, we appreciate the time and effort of the Auditor of State's Team to gather information, provide insights and recommendations to assist the Warrensville Heights City School District. The audit team was professional and made themselves available to our staff and provided timely feedback.

We recognize and fully understand, the purpose of the Performance Audit is to assist the District in identifying strategies to eliminate the conditions that brought about fiscal caution

Background

Warrensville Heights City School District is located in Cuyahoga County and serves three communities – Warrensville Heights, North Randall and Highland Hills. The District consists of six (6) schools – Warrensville Heights High School (9-12), Warrensville Heights Middle School (7-8), Randallwood (5-6) and three (3) elementary schools serving (K-4) – Eastwood, John Dewey, and Westwood.

The District over the past ten (10) years has experienced significant turnover of leadership including treasurers, and superintendents which has reduced leadership continuity accountability and reliable data. The current treasurer has recently retired and the board seeks to hire a replacement prior to school opening.

Concerns

The District has concerns with the identified peer groups, which seems to reflect a similar student population, yet several are not urban Districts and perhaps are more affluent. Additionally, Warrensville Heights is a minority school District faced with the poverty index and other social and economic factors.

Audit Responses: Noteworthy Accomplishments

The District appreciates the acknowledgments noted in this report:

- Evidence of work on new District Strategic Plan.
- Improvements in revenue of Food Service.
- Teacher salaries frozen this calendar year.
- Increasing District revenues due to moving to one Medical Provider.
- Purchase of Automated Substitute call out system.
- Reduction in Worker's Compensation claims.
- Improvement of operations at the Recreation Center.

Audit Response: Specific Auditor Recommendations

- R2.1 The District Leadership Team (DLT) have worked since October, 2008 on a revised Strategic Plan which encompasses the guidelines mandated by ODE. Our plan will be submitted to the state by June 30th and upon approval entered into the Comprehensive Continuous Improvement Plan (CCIP). As recommended the Strategic Plan contains SMART goals, timelines, budgetary needs, assessments and action steps, benchmarks and evaluation instruments. The DLT is composed of principals, teachers, central office staff, Board representation and support from the ESC Support Team.
- R2.2 The District's Assistant Treasurer serves, in the absence of the District Treasurer, on the District Leadership Team (DLT) and recognizes the impact and the need to fully implement a formal budgetary process based on the identified goals in the Strategic Plan. The District plans to utilize the Best Practices in Public Budgeting.
- R2.3 The District agrees proper internal control procedures will help to ensure District Resources are protected. The District and (Treasurer's office will review Leading Practices in Public Budgeting GFOA, 2000 to begin the process toward implementation.
- R2.5 The District has launched a new website and plans to provide updated information from the Treasurer's Office beginning Fall 2009. The new website will better inform stakeholders of school events, student achievements and financial conditions.

Audit Response: Specific Auditor Recommendations – Financial Condition

The five year forecast was successfully updated, and there were three (3) revisions (January, February, and the most recent was at the May 27, 2009 Special Board meeting. It was e-mailed the next morning to Lake Geauga Computer Association (LGCA) for transmission.

- R2.1 The budget process should be a part of the strategic plan. To that end, planning meetings with the superintendent, business manager, et al and should be scheduled into the calendar year. This should reduce situations when we are looking to determine if there is enough money for something that has recently come up. Most situations should be included in initial planning, so that, they are included in the budget ahead of time.
- R2.2 The formal budget process is very important, and I concur that the budget process should be in writing, and this written process should be distributed to key administrators. To that end, progress is being made in monitoring budget use; it has been more complex process, than originally believed. The task is not complete, but progress has been made.
 - Budget lines that make up a building's budget have been listed and distributed to key personnel in those buildings.
 - Restricted key personnel to their own budget lines has been complicated, but listings that restrict key personnel to their own lines and preventing others from spending from these same lines has been accomplished; they are not complete for all buildings. However, the effectiveness of the process is good.
- R2.3 Internal controls are needed, and policies and practices that spell out how procedures should be followed need to be in an official binder. This would serve as a guide and reference to current and new personnel.
- R2.4 The SM2 report has been presented this year on a monthly basis. In the past, it had not been at all. However, it is agreed that it should have been augmented with user-friendly format and explanatory notes. The SM2, of course, is a reflection of and comparison to the SM1-the annual spending plan; this comparison was done on a monthly basis. It shows the estimate to actual on both the month to month, and at each point in the fiscal year to date. Additional information related to finances is needed as your report indicates.
- R2.5 The District has made strides to utilize its website better than it had in the past; your advice early-on was heeded. However, there is additional utilization of the website that should be instituted.
- R2.6 Mandatory direct deposit and electronic pay stubs are two needed changes. They should be addressed in negotiations with both unions.
- R2.7 Cross-training is an important function that should be done in the treasurer's office. While it was a goal for this year, however, it was not accomplished. In conjunction, this process should be on-going and in small "bites" on a steady basis.

- R2.8 Changes in producing the five-year forecast (FYF) occurred during this fiscal year (2008-2009); the beginning of the year was very different in procedures than procedures used starting around December/January. Working papers now exist that are a collection of the documents used to determine/estimate expenses for line items in the FYF. However, this year witnessed significant changes in the methodology used in constructing the FYF. Collections of documentation were used to establish FYF line items.

General Property tax: The emergency levy has been renewed. In conjunction, the board has been advised that a deficit will still exist in FY2011. However, the gap will be much less, due to the passage of the renewal levy.

My recommendation would be to advise the board of the month to month processes that occur and need to place; use of the fiscal calendar would be helpful to this end. While this may be done early in the year to present an overview of the year, each month's requirements should, again, be notified to the board. This early notification can be referred to as the reports presented to the board will have been expected because of the advance notification of required reports/expectations.

- R2.9 The District has attempted to update the FYF more often than in the past. The updates took place as significant changes in revenue (a loss of about \$205,000) were taken to the board in January, and in expenses (a decrease of about \$150,000) to the board in February.

Attempts to respond to your advice were made as indicated above. There is still much to do, and hopefully, the children will benefit from the changes that are occurring and will occur in the future.

Audit Response: Specific Auditor Recommendations – Staffing

- R3.1 The District will work to eliminate up to 7.0 FTE's. Administrative reductions will be phased in through reorganization and merging of departmental duties and responsibilities. The District will work to maintain quality academic and instructional programs. Reductions may also include: not filling administrative duties vacated by retirement(s), contracting for special services, and moving appropriate staff to open positions.
- R3.2 The District has purchased the Automated Substitute calling system for substitutes effective Fall 2009. The District will conduct the job audit of its secretarial staff and seek to fill current openings from within—phasing in a reduction of up to three (3) FTE's.
- R3.3 The District will eliminate up to 19.5 paraprofessionals.

- R3.4 The recommendation to develop a formal staffing plan will be acted upon based on student enrollment and ratios.
- R3.5 The District currently utilizes the services of a consultant for EMIS purposes and submission of data. The District was plagued with serious errors and omissions over the past years in EMIS reporting. To date, current ODE summary reports reflect major improvements.
- R3.6 The District obtained a zero percent wage increase for both classified and certified Bargaining units.
- R3.8 The District has implemented the Bureau of Worker's Compensation practices for work plan safety. District staff has been provided information on procedures. The District has significantly reduced claims over the past two years.
- R3.9 The District will utilize a Health Insurance committee chaired by the Business Office and Assistant Treasurer.
- R3.11 The District has negotiated from five health care providers to one with a savings of over \$300,000.
- R3.12 The District will seek to lower medical premium costs during future negotiations.

Audit Response: Specific Auditor Recommendations – Special Education

- R3.3 Severe Emotionally Disturbed Classes: seven classes = seven (7) FTE Teachers and seven (7) FTE Aides.
Three (3) Severe Multi-handicapped Classes: three (3) classes = three (3) FTE Teachers, four (4) FTE Aides.
Two (2) Special Education Pre-School Classes Mixed with Typical Peers: two (2) classes = two (2) FTE Teachers, two (2) FTE Aides.
One (1) Special Education Autistic Pre-School Class: one (1) class = one (1) FTE Teacher, two (2) FTE Aides.

Due to the severe physical and mental challenges presented by these students, current staff ratios are a must. These staff has been trained to deal with the anomalies associated with this student population.

All other Para Pros' are needed for escorting students to and from inclusion classes while the teacher escorts or teaches other students. The intent is to include as many Special needs students as possible into regular classes.

- R3.4 Staffing plans have been utilized to project for each school year 2008-2009 and 2009-2010. However one must utilize the State Ratio guidelines when forecasting for special needs students. The challenge is to have adequate staff when the students are dispersed into several different directions to experience normalcy.

We will visit a more formal District staffing plan to determine if our projections are inadequate and to review to determine how to better utilized the existing staff. We will revisit District and state ratios'.

- R3.7 The special education department no longer employs the administrative position that receive the 1% towards their retirement. This employee remains in the district in another capacity.
- R3.16 WHCSD Department of Special Education did not have 37 Teacher FTE's for the 2007-2008 school year. There were 29 FTE's that served 425 students. The Director of Special Education was hired in 2007 and wrapped her arms around the need for ongoing staffing and services. We also began partnerships with outside agencies for available free resources. We utilized primarily the ESC and the CCBMR. Relationships were established with outside alternative programs. Students were returned to the District to cut out of District cost. Reports were completed that generated Catastrophic Cost, Tutoring reimbursement, SF14-H, Completed more finalized IEP's, Corrected error on the EMIS report,. Working with LGCA to get full benefits from usage.

As Director and in our quest to do better, we have consulted with nearby Districts, i.e. Bedford, Chagrin Falls, and Cleveland Hts.. Expenditures have been reduced by returning students to the District, generating new dollars by accurate and timely reports.

The Director was provided with a budget in 2007-2009 prior, this Department did not receive a formal budget. The Director will generate a table like Table 3-10 FY 08-09 Special Education Expenditures to see the comparison to see how we have or have not improved. (Page 3-25). I was surprised to see the % of dollars spent on special education students compared to regular Ed. Included in this plan will be an effort to secure a copy of: the Action Plan for Special Education Reform (2008) from the District of Columbia. Also, I will secure and read the joint Annual conference of Ill, which discussed methods for controlling cost. The Department of Special Education has a tentative plan that we are reviewing with and conjunction with the Ohio Department of Education. Together we are finalizing an action plan. The Dept. of Special Education has and will continue to explore strategies to ensure its special education services are cost effective and provide appropriate educational services to its special needs students. The current plan will be expanded to include those of other more experienced and successful similar Districts. Expenditure cost can be reduced by more than 5%.. Revenue from reporting can increase loss dollars by more than 100%. Working with the Treasurer can demonstrate increases and decreases.

Transportation:

My recommendation is that we transport our own students to and from out of District Facilities. The vehicles recommended for cutting could be used by Special Education, financially supported by special education. It would be cost effective to manage and the dollars expended are reimbursable by placing the need on the IEP as a related and needed service.

The District will also consider purchasing a wheelchair van and this would adequately meet our need. The drivers would have to be trained and we would have to place bus monitors on the bus. By bringing the transportation into the District; the dollars going out of District would support an increase in numbers for less money. Additional recommendations:

Work with the business office and the Transportation coordinator to review cost effective measures and to come up with a plan that has a positive impact on the District and still maintain a high quality service to the special needs students.

Establish a comparison chart, Contract Service vs. District Service.

Place all transportation totally under the Transportation Department in an effort to be monitored based on state statutes, levels of expertise and focus in "Roll Clarification"

If the transportation Department is going to be involved in the IEP process, a recommendation for training of "Disability Awareness.", Modes of transportation and Bus safety for Special Needs students is recommended.

We have had input, along with the Assistant Treasure into the T-Report. This will continue.

The Special Education Director was not aware that the T-2 report was rejected. Subsequently, we made no offers or recommendation to change. The Department will meet with Transportation in the future. (We will review Warren County)

Audit Response: Specific Auditor Recommendations – Business Office Facilities:

- R4.1 All custodial work and schedules were reviewed in November, 2008 and square footage was assigned to all custodians.

This works out to 31,200 square feet per individual. It is not possible to assign a large square footage to the 6 Head Custodians at the buildings.

- R4.2 We have reduced overtime throughout the department. All overtime must be approved by the Business Manager or Superintendent.
- R4.3 The District is currently working with Lawhon & Associates toward implementing a capital improvement plan and building maintenance plan consistent with the ELPP.
- R4.4 On behalf of the district, the Department is researching software products to address better management processes, such as CMMS.
- R4.5 If work exceeds the District's new threshold of \$10,000 a public bid must occur.
- R4.6 The Board and Superintendent are reviewing several cost reductions and savings including closing a school site.
- R4.7 The District would benefit from the recommendations on Energy Management Practice. We have addressed classroom lighting conservation. We will continue this focus and review HB264 for future funding.
- R4.8 Board of Education's Recreation Task Force has addressed this issue on the ability of the Recreation Center becoming a self-supporting entity.

Transportation:

- R5.1 As we continue to review and improve transportation services, the District will review and update policies for better management and coordination of services. The Business Manager and Treasurer will heed to the recommendation to review and utilize GFOA recommended practices.
- R5.2: Non-routine transportation services are costed out and reported on the Field Trip Request Form. The Business Manager and Transportation Supervisor, to assure accuracy of reporting, will review this calculation each year.
- R5.3: Our current Transportation Supervisor is well acquainted with the reporting process required by the Ohio Department of Education, and has eliminated problems and errors reported in past years.
- R5.4 We do comply with the reporting for declaring students impractical to transport. We will do a better job of communicating this information to parents through use of the web site as per R5.1.
- R5.5 The Transportation Supervisor is currently reviewing bus rosters and ridership numbers to reduce costs through better management systems. The District looks to maximize student counts and will reduce the size of our fleet by 1 bus this coming school year.

- R5.6 A Preventive Maintenance Program has been in effect for the past year and should be reflected in the upcoming Highway Patrol Inspection Report. A spot check of vehicles this past winter resulted in all vehicles passing. The District/Department will look into an automated vehicle maintenance program.
- R5.7 The District has actively reduced overtime expenses in all departments. We will continue to monitor employee productivity through the evaluation process.
- R5.8 The Transportation Supervisor will be available to the Special Education Department in IEP review. The majority of Special Education transportation has been contracted out due to the District not having the ability to transport special needs students out of District. This contract was bid out two years ago and renegotiated this year at tremendous savings to the District compared to the prior two years of contracted service. The savings have been in excess of \$500,000. In addition, we have picked up some of the in District busing of special needs students to defray some of the outside contracting costs.

Food Service:

- R6.1 Food Service Strategic Plan draft has been submitted to ODE, Office of Safety, Health and Nutrition. The Plan will be finalized this summer.
- R6.2 Standard Operating Procedures are included in the Departmental Hazard Analysis Critical Control Point plan. This is included in the draft of the Strategic Plan mentioned in R6.1.
- R6.3 The Food Service Supervisor, met on a regular basis with stakeholders currently consisting of High School students, Student Council President as well as a Randallwood parent. We have dramatically improved the financial situation of the Food Service program. This is directly attributable to labor concessions we received in negotiations with OAPSE last summer as well as increasing lunch prices, increasing programs and participation rates and dogged supervision of the program by the Food Service Supervisor.
- R6.4 See comment previously related to receiving this utility information. We have made gigantic strides by bringing the operation out of the red (continual reliance on General Fund). Also, the District does not pay for trash removal (City service).

Audit Response: Specific Auditor Recommendations – Recreation Center

- R4.8 A Task Force Committee (TFC) was formed in June 2008 to collaborate, analyze, and enhance the structure of the Recreation Department. A methodical review of the facility's programming and finances revealed that we are unique as a facility

in service under the *direction of the school District*, viewed from a business scale, the high school is established as its base for first use, and the variance between revenues and expenditures (utilities, water, sewage, electricity, gas, heat, etc.) be calculated as school versus blank time.

Thus, to determine the needs and desires of the community a sampling of questions were prepared for a survey. The inquiries will identify the community by race, age, gender and population.

As it has been established by the TFC all programming must be self-sufficient and strident operating procedures must be imposed to maintain our existence. Programs will be subject to cancellation if the following standards are not fulfilled.

- must be commensurate with instructor's salary
- must meet the minimum required enrollment number

To strengthen our operation the District has formed an alliance with Tri-C and the City of Warrensville Heights. This pledge of support by means of outsourcing will help improve services for the community. An agreement was made with Tri-C to enter into a partnership for use of the pool for their Aquatics Curriculum and Recreation component for the Spring Semester 2009. Tri-C comfortably transitioned to the assimilation of the facility with an interest to continue this joint venture.

Representatives from the Economic Development office for the City of Warrensville Heights, attended several of our TFC meetings. His insightful perspective and ideas on the status of the Recreation Department will reverberate throughout our efforts to assess the dynamics for operating a resourceful and efficient facility. The City of Warrensville Heights will be building a Community Center and new library. Space will be parceled to the YMCA for programming. The City is willing to collaborate with the Recreation Department to enhance not duplicate our services (pool, track, gym). Construction of the Community Center

The Honorable Mary Taylor, CPA
June 3, 2009
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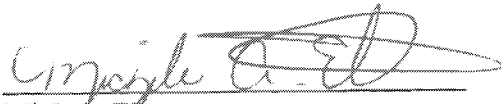
will begin in 2010 with a fifteen (15) month build-on. The center will provide adult/youth programming, health and wellness, baby-sitting services, rehabilitation center, and athletics. The City will engage the District with long-term services for enhancement. We will affix an affordable membership to help alleviate financial stress for the District.

Finally, we will seek to improve marketing strategies to increase membership and participation; every effort will be made to avoid depending on the General Fund budget.

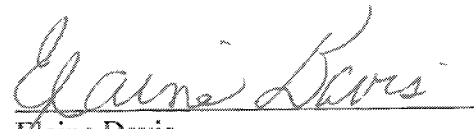
A Recreation Committee has replaced the Task Force.

Respectfully submitted,

Warrensville Heights City School District


Michele Elba
Board President

ED/atd


Elaine Davis
Superintendent