



Dave Yost • Auditor of State



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To the residents, administrators, and elected officials of the Graham Local School District:

Based on its projected financial condition, the Auditor of State's Office initiated a performance audit of the Graham Local School District. The functional areas assessed in the performance audit were financial systems, human resources, facilities, and transportation. These areas were selected because they are important components of the District's operations that support its mission of educating students. Improvements in these areas can assist Graham Local School District in balancing its budget and stabilizing its future financial condition.

The performance audit contains recommendations that identify the potential for cost savings and efficiency improvements. The performance audit also provides an independent assessment of the operations of Graham Local School District. While the recommendations contained in the audit report are resources intended to assist in reducing its operating costs, the District is also encouraged to assess overall operations and develop other alternatives independent of the performance audit.

An executive summary has been prepared that includes the project history; a District overview; the scope, objectives and methodology of the performance audit; and a summary of noteworthy accomplishments, recommendations, issues for further study and financial implications. This report has been provided to Graham Local School District and its contents discussed with the appropriate officials and School management. The School has been encouraged to use the results of the performance audit as a resource in further improving its overall operations, service delivery, and financial stability.

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

Sincerely,

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

July 7, 2011

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Executive Summary

Background

Project History

In June 2010, the Ohio Department of Education (ODE) requested that the Auditor of State's Office (AOS) conduct a performance audit of Graham Local School District (Graham LSD or the District) because of the District's financial condition. The performance audit was designed to evaluate the District's financial and strategic management practices, staffing allocations, and facilities and transportation operations.

The overall objectives of this project were to identify opportunities for savings to help the District balance its budget, and to identify opportunities for process improvements by comparing results and processes to leading practices, industry benchmarks, and similar school districts. Where appropriate, recommendations were made that could reduce costs or improve efficiency. The resulting recommendations provide options the District should consider in its continuing efforts to stabilize the long-term financial condition and balance its budget.

District Overview

Graham Local School District (Graham LSD) operates under a locally elected five-member Board of Education (Board). The District was established in 1955 through the consolidation of several school districts. Graham LSD serves an area of approximately 189 square miles. It is located in Champaign and Shelby Counties, and includes all of the Villages of Christiansburg, Rosewood, and St. Paris, and portions of Adams, Concord, Harrison, Jackson, Johnson, and Mad River Townships.

The District provides a full range of traditional and non-traditional educational programs and services. These include regular and vocational instruction; special education instructional programs for handicapped and gifted students; and a broad range of co-curricular and extracurricular activities. In addition, the District sponsors an on-line community school (digital academy).

The District earned an excellent rating on its FY 2009-10 ODE report card. It met 25 out of 26 state indicators and achieved a performance index of 97.3 on a scale of 0-120. However, Graham LSD did not meet its adequate yearly progress measures although it met the value-added measures.

In FY 2009-10, the District served 2,351 students and employed approximately 248 staff. Staffing included 12.5 full-time equivalent (FTE) office/administrative staff, 137.5 FTE professional-educational staff, 5.4 FTE professional/other services staff, 30.0 FTE office

clerical/non-certificated classroom support staff, and 59.0 FTE operations staff. Additionally, approximately 14.8 FTE educational service personnel (ESP) work in the District.

According to Graham LSD's October 2010 five-year forecast, the District ended FY 2009-10 with an operating deficit of approximately \$669,000. In FY 2010-11, Graham LSD projected a deficit of about \$721,000 that increased to \$7.8 million by the end of the forecast period. A November 2010 income tax ballot issue was not approved by voters. The District included a reduction in State Foundation revenue as a component of its October forecast in the restricted grants-in-aid line item. This reduction appears reasonable and reflects likely changes in funding for FY 2011-12.

Subsequent Events

The Treasurer develops financial forecast assumptions in a bullet point style to assist the community in understanding the development of the forecast elements. These short descriptions are intended to help laypeople better understand the District's financial condition. .

According to the Treasurer, cross training is difficult for the small office staff. The District may outsource its payroll services to Western Ohio Computer Organization (WOCO). WOCO provides computer system support that includes the payroll software used by Graham LSD.

The District has made staffing reductions as of March 29, 2011 of approximately \$1.6 million that includes elementary, middle, and high school teachers, intervention specialists, administrators, and various support staff positions. These reductions are comparable to those recommended in the audit and, in some cases, exceed the levels of the recommendations.

Finally, the District submitted its May 2011 forecast to ODE as required by State law. This forecast includes future year deficits that may require the District to revisit potential cost reductions contained in this audit.

Audit Methodology and Scope

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

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

reasonable basis for the findings and conclusions presented in this report based on the audit objectives.

To complete this report, auditors gathered and assessed data from Graham LSD; conducted interviews with District personnel; identified applicable benchmarks and leading practices; and developed a composite of ten “peer” districts from across the State. The peer districts include Bethel-Tate LSD (Clermont), Blanchester LSD (Clinton), Clinton Massie LSD (Clinton), United LSD (Columbiana), Keystone LSD (Lorain), West Branch LSD (Mahoning), Black River LSD (Medina), Clear Fork Valley LSD (Richland), Warren LSD (Washington), and Norwayne LSD (Wayne). Transportation peers were Wilmington CSD (Clinton), Wynford LSD (Crawford), Wayne Trace (Paulding), East Muskingum LSD (Muskingum), and Westfall LSD (Pickaway).

In addition to peer data, AOS used external organizations to identify leading and recommended practices for comparisons. Key external sources included the Ohio Department of Education, the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the National State Auditors’ Association (NSAA), the United States Government Accountability Office (GAO), and other industry organizations. Data from peer districts and external sources used as criteria were not tested for reliability.

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

Noteworthy Accomplishments

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

Collective Bargaining Agreement Provisions - Transportation Personnel: The District’s classified collective bargaining agreement provisions enable the Transportation Supervisor to schedule bus routes and non-routine bus trips without using a bidding and seniority process. The agreement does not guarantee driver hours and the hours paid to drivers are based on route times. The agreement also does not include a bidding process that would require drivers to place bids for desired bus routes by seniority. Additionally, a seniority process is not used to schedule non-routine bus trips. The bus trip provision requires the driver to request trips at the beginning of August of each year. Generally, the trips are not scheduled if it is within the driver’s route time. In the event a regular driver must be scheduled to drive the trip, the driver’s pay is reduced to the time of the trip at the trip rate of \$10 per hour. These provisions result in greater efficiency in allocating personnel to tasks within the Transportation Department.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide the District with options to enhance its 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.

1. Financial Systems

- Develop a written comprehensive strategic plan.
- Enhance forecast assumptions and develop scenarios within the forecast to reflect various potential outcomes.
- Implement written policies and procedures related to the financial forecasting process.
- Include Government Finance Officers Association recommended financial policies and tailor District policies to operations.
- Cross-train Treasurer's Office employees to ensure continuity and consistency in payroll processing.
- Implement a formal community/stakeholder feedback process.

2. Human Resources

- Establish a formal staffing plan that includes benchmarks for administrative, certificated, and classified positions.
- Eliminate up to 16.0 FTE regular teachers to bring regular teacher staffing in line with State minimums.
- Eliminate up to 3.0 FTE clerical positions.
- Eliminate up to 2 FTE teaching aide positions.
- Discontinue paying the employee's share of retirement benefits for administrative employees.
- Develop and implement a sick leave abuse policy.
- Develop guidelines and procedures for reporting Education Management Information System (EMIS) information to ODE and ensure all employees entering EMIS data receive appropriate training.

3. Facilities

- Implement a higher workload and lower cleaning level for custodians and reduce 3.0 custodial FTEs.
- Implement an energy management policy and plan to reduce the cost of utilities and increase the level of energy conservation.

4. Transportation

- Develop written T Report preparation and review procedures and train District management to use effective review procedures.
- Follow the District's reimbursement policy for recouping non-routine busing costs.
- Develop a formal fleet maintenance and bus replacement plan.

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 auditors do not have the time or resources to pursue. The following presents an issue requiring further study:

Bus Take Home Practices: The District should evaluate the costs and benefits of allowing its drivers to take District buses to their homes. There are no formal policies or procedures for the Transportation Department to follow in regards to this practice and District personnel do not know if it results in cost savings. In its evaluation, the District should consider cost effectiveness issues, such as routing efficiency and employee time as well as safety issues when allowing drivers to take District property to their homes. There should also be consideration of the risk of theft and damage if a bus is stored on private property.

If the District decides to allow the drivers to take their buses home, it should evaluate routes so they are allocated to enhance efficiency. This can be done by establishing a route that is in the area of the driver's home, thereby reducing mileage and paid time. Lastly, the District should take steps to ensure compliance with transportation regulations, such as performing pre-trip and post-trip inspections as required. If Graham LSD retains this practice, it should memorialize in Board policy the conditions under which buses may be taken home.

Summary of Financial Implications

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

Summary of Performance Audit Recommendations

Recommendation	Impact
R2.2 Eliminate up to 16.0 FTE regular education teachers.	\$1,100,000
R2.3 Eliminate 3.0 clerical FTEs.	\$122,000
R2.4 Eliminate 2.0 FTE teaching aides.	\$44,000
R2.5 Discontinue paying the additional retirement benefit for administrative employees.	\$56,000
R3.1 Eliminate 3 FTE custodial positions to meet a higher custodial cleaning workload and reduce costs.	\$85,500
Total Cost Savings from Performance Audit Recommendations:	\$1,407,500

Audit Objectives

The following detailed audit objectives were used to conduct the performance audit of Graham Local School District. According to *Government Auditing Standards*, “the objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.” In some instances, objectives were modified based on actions taken by the District to address its deficit or high risk environments indentified by the auditors during the course of their work.

1. Financial Systems

- What is the District's financial history (including the use of emergency school loans, spending reserve, history of deficit spending, other issues that are affecting the District's financial situation)?
- What has been the recent trend in revenues and expenditures?
- What is the allocation of the District's revenue and expenditures (per pupil) and how does this compare with peer districts?
- Does the District have comprehensive policies and procedures that generally meet recommended practices?

2. Human Resources

- What is the organizational structure and function of human resource management operations at the District?
- Does the District provide efficient and cost effective educational services to its students with disabilities?
- Does the District maximize educational resources through cooperative agreements, resource pooling with other districts, and County resources?
- Does the District's IEP process meet leading practices? Does it evaluate the success of special education instruction using student achievement and other appropriate measures and benchmarks?
- Does the District use an effective collective bargaining process for each group of unionized employees?
- How do the insurance benefits offered by the District compare with State averages and industry benchmarks?

3. Facilities

- How do the District's Maintenance and Operations (M&O) Department staffing levels compare to industry benchmarks?
- How has District M&O spending changed during that past 3 to 4 years?

- How do the District's M&O expenditures compare with industry benchmarks?

4. Transportation

- Does the District have written procedures and guidelines that ensure accurate and timely reporting of transportation data (T-forms) to ODE?
- How do the District's "yellow bus" (Type I & II) transportation services compare with peer districts and/or industry standards?
- How does the District's transportation operation compare with peer districts and industry standards in terms of key statistics and operating ratios?
- How does the District's allocation of transportation expenditures and cost ratios compare with peer districts?
- How do the District's transportation policies and procedures compare with leading practices and how do they impact operations?
- How does the actual level of transportation service provided compare with Board policy and State minimum standards?
- Is the District effectively and efficiently maintaining and managing its fleet?

Financial Systems

Background

This section focuses on strategic and financial management in Graham Local School District (Graham LSD or the District). It analyzes strategic planning, financial policies and procedures, historical revenue and expenditures, and the forecast processes of the District. Plans, procedures, and operations were evaluated and compared to leading practices, industry benchmarks, operational standards, and selected peer districts (see **executive summary** for list of peer districts). Leading practices and industry standards were drawn from various sources, including the Government Finance Officers Association (GFOA), the National State Auditors' Association (NSAA), the National Institute on Governmental Purchasing (NIGP), and the Ohio Ethics Commission (OEC).

Treasurer's Office Operations

The Treasurer's Office is responsible for forecasting, budgeting, payroll, accounts payable, accounts receivable, and accounting for the District's grants. The Treasurer's Office consists of a part-time Treasurer, who is on a one-year contract, and 2.0 full time staff -- an assistant treasurer who completes payroll and accounts payable, and an assistant to the treasurer who completes all the clerical duties of the office. The Treasurer holds both a treasurer's license and a Superintendent's license and is experienced in both positions. Although the Treasurer is part-time, he worked for the District for over ten years as Treasurer prior to working as the Superintendent at Bethel Local School District for three years.

Historical/Projected Financial Position

Ohio Revised Code (ORC) 5705.391 and Ohio Administrative Code (OAC) 3301-92-04 require all city, local, exempted village, and joint vocational school districts to submit a five-year forecast of general operating revenues and expenditures to ODE prior to October 31 of each fiscal year and to update this forecast between April 1 and May 31 of each fiscal year. The forecast format consists of three years of historical data, projections for the current and four ensuing years, and a summary of key assumptions. Graham LSD's October 2010 five-year forecast was approved by the Board on October 26, 2010 and submitted to ODE on October 28, 2010. This was the most recent forecast available at the time of reporting. Although the forecast is only approved twice a year (May and October), the forecasting process is ongoing, and events that affect the forecast are taken into account and shared with the Board and administrators throughout the year.

Graham LSD's October 2010 five-year forecast projects a negative ending fund balance in fiscal year (FY) 2011-12 of approximately \$720,000. The negative ending fund balance is projected to grow to \$7.8 million by FY 2014-15. Prior to FY 2008-09, the District's net *result of operations*

was negative and is projected to remain negative throughout the forecast period.

In FY 2009-10, 27.9 percent of revenue was from local sources, 66.0 percent was generated from State funding, and 6.1 percent came from federal sources. Graham LSD is at the 20 mill floor but a permanent improvement levy was renewed in 2009. Graham LSD placed a 1.25 percent income tax on the November 2010 ballot, but the measure was rejected by voters. In FY 2010-11, Graham LSD made reductions that were projected to save \$625,000. In March of 2011, it made an additional \$1.6 million in reductions for FY 2011-12.

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 level should continually be evaluated and prioritized. **Table 1-1** compares Graham LSD's FY 2008-09 expenditures on a per pupil basis to the peer average. Total expenditures are based on the Ohio Department of Education (ODE) Expenditure Flow Model (EFM). 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 do not match funds found within the five-year forecast.

Table 1-1: Expenditure per Pupil Comparison

	Graham LSD		Peer Average		Percent Difference	
	Total	Per Pupil	Total	Per Pupil	Total	Per Pupil
Administrative	\$2,216,590	\$1,007	\$1,613,735	\$881	37.4%	14.3%
Building Operations	\$3,949,437	\$1,795	\$3,130,618	\$1,703	26.2%	5.4%
Staff Support	\$224,407	\$102	\$398,807	\$223	(43.7%)	(54.3%)
Pupil Support	\$2,213,449	\$1,006	\$1,389,828	\$768	59.3%	31.0%
Instruction	\$9,396,882	\$4,271	\$8,183,474	\$4,506	14.8%	(5.2%)
Total/Difference	\$18,000,765	\$8,181	\$14,716,462	\$8,081	22.3%	1.2%

Source: FY 2008-09 ODE Expenditure Flow Model Reports

As **Table 1-1** shows, overall Graham LSD spent 1.2 percent more per pupil than the peer average. The following is a brief explanation of the District's spending in these areas:

- **Administration:** In FY 2008-09, Graham LSD spent 14.3 percent more per pupil than the peers. Aside from salary and benefit expenses, these costs are associated with the Board of Education, Superintendent's Office, fiscal services, support services, and building principals. These expenditures do not relate directly to the education of students. Instead, they encompass expenses relating to planning, research, information services, staff services, and data processing.
- **Building Operations:** In FY 2008-09, the District's building operation costs were 5.4 percent per pupil above the peer average. These expenditures are comprised of salaries

and benefits, and vendor contracts for the direction of maintenance, transportation, and the food service operations. Building Operations also includes facilities-related operations at the building and central office levels, as well as any purchasing for the enterprise funds, such as the lunchroom operation.

- **Staff Support:** In FY 2008-09, Graham LSD spent 54.3 percent less per pupil than the peer average. Expenditures in this category are related to staff needs, such as professional development, training, and tuition reimbursement.
- **Pupil Support:** In FY 2008-09, Graham LSD's pupil support expenditures were 31.0 percent greater than the peer average on a per pupil basis. These expenditures are related to student needs outside of the classroom, such as guidance counseling, help in the media center or library, college advising, field trips, and psychological testing.
- **Instruction:** In FY 2008-09, the District spent 5.2 percent less per pupil on instruction than the peer average. This function includes costs for teachers, teacher aides, and paraprofessionals, in addition to costs associated with instructional materials such as computers, books and other supplies and materials that are used in the classroom setting. These expenditures are directly related to the education of students.

Table 1-2 compares Graham LSD's five-year forecast expenditures by object to the peer average for FY 2008-09.

Table 1-2: Five-Year Forecast Expenditures by Object Comparison

Line #	Line Item	Graham LSD	Dollars Per Pupil	Peer Average	Dollars Per Pupil	Difference Per Student	% Difference
3.01	Personal Service	\$9,559,807	\$4,343	\$8,095,020	\$4,447	(\$104)	(2.3%)
3.02	ERIB	\$3,527,657	\$1,603	\$3,113,315	\$1,705	(\$102)	(6.0%)
3.03	Purchased Services	\$3,489,422	\$1,585	\$2,063,158	\$1,148	\$437	38.1%
3.04	Supplies and Materials	\$690,358	\$314	\$533,209	\$292	\$22	7.6%
3.05	Capital Outlay	\$110,072	\$50	\$149,466	\$82	(\$32)	(38.7%)
4.01	All Principal	\$21,000	\$10	\$5,500	\$3	\$7	236.9%
4.06	Interest and Fiscal Charges	\$13,298	\$6	\$12,751	\$7	(\$1)	(8.0%)
4.3	Other Objects	\$349,512	\$159	\$256,757	\$141	\$18	12.8%
4.5	Total Expenditures	\$17,761,126	\$8,070	\$14,229,175	\$7,825	\$245	3.1%

Source: Ohio Department of Education Five-Year Forecasts

As shown in **Table 1-2**, Graham LSD spent 3.1 percent more per pupil than the peer average in total five-year forecast expenditures. The District spent more per pupil than the peer average on purchased services. This can be attributed to the construction of the high school.

Table 1-3 compares Graham LSD's revenue by source to the peer average for FY 2008-09.

Table 1-3: Revenue by Source Comparison

	Graham LSD FY 2008-09	Peer Average FY 2008-09	Difference	Percent Difference
Local Revenue Per Pupil	\$2,304	\$2,643	(\$339)	(12.8%)
Total Local Revenue	\$5,068,992	\$4,866,258	\$202,734	4.2%
Local Revenue as a Percent of Total Revenue	27.9%	32.2%	(4.4%)	(13.6%)
State Revenue Per Pupil	\$5,457	\$5,074	\$383	7.6%
Total State Revenue	\$12,004,526	\$9,291,709	\$2,712,817	29.2%
State Revenue as a Percent of Total Revenue	66.0%	61.6%	4.4%	7.2%
Federal Revenue Per Pupil	\$506	\$507	(\$1)	(0.2%)
Total Federal Revenue	\$1,112,203	\$931,739	\$180,464	19.4%
Federal Revenue as a Percent of Total Revenue	6.1%	6.2%	(0.1%)	(1.0%)
Total Revenue Per Pupil	\$8,267	\$8,224	\$43	0.5%
Total Revenue	\$18,185,721	\$15,089,706	\$3,096,015	20.5%

Source: Ohio Department of Education Revenue by Source Data

Note: Because districts often account for funds that are unrelated to the instruction of school-age students (i.e., special trust funds or adult education), not all money received by a school district is included in the revenue per-pupil calculation.

As shown in **Table 1-3**, the District receives 12.8 percent less of its total revenue per pupil from local sources than the peers. The District receives 7.6 percent more of its total revenue per pupil from state sources and 0.2 percent more of its total revenue per pupil from federal sources than the peer average. Overall, this is 0.5 percent more total revenue per pupil than the peers.

Recommendations

R1.1 Develop a multi-year strategic plan.

Graham LSD should develop a clearly written, multi-year strategic plan that provides vision and direction for its Board and employees. The plan should incorporate the Comprehensive Continuous Improvement Plan (CCIP) and any other educational and operational plans. In developing the strategic plan, the Board should identify and formally adopt a limited number of District priorities to guide its strategies and major financial needs, capital needs, and program decisions.

The strategic plan should clearly depict the District's goals and objectives and the strategies for achieving them; the priorities the Board assigns to its goals, objectives, and strategies; the performance measures and standards the District will use to judge its progress toward meeting the goals; and the entities or departments responsible for implementing the strategies. Once a comprehensive strategy is adopted and approved, Graham LSD should review all parts of the strategic plan on an annual basis and amend its priorities to reflect changes in internal and external conditions.

The District has not developed a strategic plan. It has prepared the ODE-required Comprehensive Continuous Improvement Plan (CCIP) that focuses on academic strategic planning. However, it does not have a strategic plan that incorporates business-side operations. Informal planning discussions are conducted within the District but this includes limited community involvement. The CCIP is used as the basis for operational and academic planning.

According to OAC 3301-35-03(A), a strategic plan guides school districts and key stakeholders in the ongoing measurement of performance to assure adequate progress is being made toward strategic goals and objectives. Strategic planning identifies short-and long-range goals and the strategies necessary to achieve them.

According to *Recommended Budget Practices on the Establishment of Strategic Plans* (GFOA, 2005), 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, the District should take the following actions when developing its strategic plan:

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

North Union Local School District (Union County) and Westerville City School District (Franklin County) are examples of school districts that have successfully developed strategic plans.

The Treasurer and Superintendent have been employed by Graham LSD for only a short time and have not had the opportunity to develop and implement an integrated strategic plan. The prior administration also did not implement a plan.

By developing and implementing a comprehensive strategic plan, Graham LSD can gain a better perspective on its future financial needs and develop a more comprehensive approach to balancing finances with its educational mission. In addition, a strategic plan can serve as a tool to improve communication between the District and community, provide direction for the Board, and align the planning and budgeting processes.

R1.2 Enhance forecast assumptions and develop scenarios reflecting various potential outcomes.

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

The Treasurer noted that his assumptions presentation is geared toward community members with little prior experience in school finance. Auditors recommended supplemental materials to fully disclose the assumptions.

Graham LSD's forecast assumptions contain line-by-line explanations of revenue and expenditure projections. Forecast assumptions are posted on the ODE web site. The Treasurer includes sufficient methodology for projecting each line item; however, the assumptions do not include scenario-type explanations to illustrate what may happen if conditions or future expectations are altered (see also **R1.3**).

While the Treasurer includes adequate methodology for projecting each forecast line, explanations regarding the effect potential scenarios may have on District revenues and expenditures are not always included. For example, the Treasurer projected new revenue from the passage of an earned income tax operating levy. However, the assumptions did not include statements regarding the effect the failure of the levy would have on the District.

The auditing and accounting guide *Prospective Financial Information* (AICPA, 2008) states that the disclosure of significant assumptions is essential to the reader's understanding of the financial forecast. In addition, the responsible party should identify which assumptions in the projection are hypothetical. Particularly sensitive assumptions are those assumptions having a relatively high probability of variation that would materially affect the financial forecast. One example of a particularly sensitive assumption might involve the effects of pending legislation. Furthermore, the *Auditor of State's Best Practices* (AOS, Spring 2004) outlines some common problems and

typical recommendations for enhancement of five-year forecasts. One common problem identified by AOS is the lack of assumptions. AOS recommends that districts create more detailed assumptions to allow the reader to better understand the factors included in each line item of the forecast. Best practice forecasts are accompanied by explanations of each assumption and often include supporting documentation. Supporting documentation may include trend analyses, expert opinion, or other critical information.

The Treasurer has not included various scenarios because they are not required by ODE and necessitate an additional time investment. Likewise, the District does not have a policy articulating its expectations for forecast scenarios. Finally, the Treasurer has worked to keep his statements very brief and to the point, so as to better appeal to community members who may not have a background in school finance.

Improving the financial forecast by including scenarios will provide decision makers with useful information when making critical financial decisions. Retaining documentation about how the Treasurer has calculated future revenues and expenditures helps both forecast users and District personnel better understand the rationale behind the forecast methodology.

R1.3 Implement formal financial policies outlining expectations associated with financial forecasting.

Graham LSD should implement written policies and procedures on financial forecasting. The policies and procedures should outline preparation timetables, forecast assumptions and methodology, as well as the process used to update existing forecasts. In addition, the forecasting policy should identify all participants in the forecasting process and include an outline for how and when those participants should review the forecast for accuracy.

Graham LSD does not have a Board policy on budget planning to specify the process for preparing financial forecasts. The Treasurer currently uses School Business Solutions (SBS) software to develop a forecast. This software allows the Treasurer to develop not only a forecast but also compare actual versus forecasted amounts on a monthly basis. This will reveal any errors in the forecast early so adjustments can be made to reduce the possibility the District will unnecessarily fall into fiscal oversight.

Documentation of Accounting Policies and Procedures (GFOA, 2002) suggests formally documenting accounting policies and procedures as an effective method of internal control for reporting. Policies and procedures should be formalized, approved, and added to the current operational guidelines/policies. Moreover, *Use of Cash Flow Forecasts in Operations* (GFOA, 2008) notes that a government's forecast preparation process should be organization-wide and as such, all operating departments should be involved in developing reasonable expectations of planned expenditures. Collaborative forecasting allows for more accurate measurement and prioritization relative to governmental goals. Finally, *Financial Forecasting in the Budget Preparation Process* (GFOA, 2001) recommends that a forecast, along with its underlying assumptions and methodology, be clearly stated and made available to participants in the budget process.

A formal policy has not been implemented because the Board did not identify a need for forecasting policies, as this is governed under State requirements.

Without a formal Board-approved policy encompassing all aspects of the forecast development, review, and approval process, the District may not be using the most effective forecasting process in its planning and budgeting efforts. By creating policies and procedures that govern the process used to develop forecasts, Graham LSD can better define the roles of those involved in the forecasting process and provide a more consistent framework and methodology for forecasting District operations.

R1.4 Develop and maintain comprehensive financial policies and procedures.

Graham LSD should develop and maintain a comprehensive set of policies and procedures to govern its financial operations. These policies should be tailored specifically to the District's operations and should be based on recommended practices. Once a comprehensive set of financial policies has been developed and adopted by the Board, the District should ensure that its financial and budgetary procedures are consistent with these policies. Complete and up-to-date procedures ensure that District administrators, employees, and other stakeholders have a clear understanding of the processes in each of its operational areas and can serve as a resource for the District's approach to day-to-day operations.

Graham LSD has adopted fiscal management policies within its Board policy manual to help guide the District's financial decision-making. These policies include, but are not limited to, fiscal planning, investing, borrowing, tax budgeting, appropriations and depository agreements. The District uses the Northeast Ohio Learning Associates (NEOLA) to ensure its policies meet ORC and OAC requirements.

NEOLA provides school districts with a complete service for developing and updating Board bylaws and policies, administrative guidelines and procedures, and handbooks. According to NEOLA, each statement of policy delegates to the Superintendent the responsibility to develop administrative guidelines or procedures for proper policy implementation. These policies are approved by the Board, and a systematic review showed that updates have occurred. However, NEOLA policies are not specific to the District and do not include certain fiscal policies that Graham LSD should consider.

Best Practices in Public Budgeting (GFOA, 2000) recommends that governments develop a comprehensive set of financial policies that are consistent with broad organizational goals and represent the outcome of sound analysis. Policies also should be consistent with each other and relationships between policies should be identified. To ensure that its financial management policies follow recommended guidelines, Graham LSD should adopt and follow the following GFOA-recommended policies and practices:

- **Debt issuance and management** – The policies should include: purposes for which debt may be issued; matching of the useful life of an asset with the maturity of the debt; limitations on the amount of outstanding debt; types of permissible debt; structural

features, including payment of debt service and any limitations resulting from legal provisions or financial constraints; refunding of debt; and investment of bond proceeds. Legal or statutory limitations on debt issuance should be incorporated into debt policies.

- **Debt level and capacity** – A government should develop distinct policies for general obligation debt, debt supported by revenues of government enterprises, and other types of debt such as special assessment bonds, tax increment financing bonds, short-term debt, variable-rate debt, and leases. Limitations on outstanding debt and maximum debt service may be expressed in dollar amounts or as ratios, such as debt per capita.
- **One-time revenues** – This policy should limit the use of one-time revenues to ongoing expenditures. By definition, one-time revenues cannot be relied upon in future budgets. A policy on the use of one-time revenues should provide guidance to minimize disruptive effects on services due to non-recurrence for these sources. One-time revenues and allowable uses for those revenues should be explicitly defined within the policy (example government stimulus package or grants).
- **Unpredictable revenues** – For each major unpredictable revenue source, a government should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, a government should identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. A government should decide, in advance, on a set of tentative actions to be taken if one or more of these sources generate revenues substantially higher or lower than projected.
- **Contingency planning** - This policy should identify types of emergencies or unexpected events and the way these situations will be handled from a financial management perspective. It should consider operational and management impacts.
- **Reserve or stabilization of funds** - A jurisdiction should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

Though Graham LSD has adopted NEOLA policies, these have not been updated to reflect District-specific procedures. Similarly, the District has not augmented its policies to include additional GFOA-recommended elements.

Adding the comprehensive policies recommended by GFOA and tailoring those policies specifically to the District and its operations would help administrative staff manage limited resources more effectively and increase consistency in financial practices. Such policies should also help the District operate more effectively, be used as a tool for financial decision-making, and help improve the ability of the District to take timely action. In addition, financial policies can aid in the overall management of the budget and achievement of the District's long-range goals. Finally, developing a comprehensive set of financial management policies, including additional procedures, would help the District prioritize the use of limited resources during

volatile economic times and plan for the use of one-time revenue.

R1.5 Implement cross-training for Treasurer's Office employees.

Graham LSD should cross-train Treasurer's Office employees to process payroll. In the absence of the Assistant Treasurer, cross-training other employees would allow the District to ensure consistency and an uninterrupted payroll process and could help strengthen internal controls. In addition, the District should prepare a manual that serves as a guide to personnel assigned to the completion of payroll.

The Treasurer noted that Graham LSD may outsource its payroll function to the Western Ohio Computer Organization.

Graham LSD does not cross-train its Treasurer's Office employees. Only the Assistant Treasurer has the necessary training to complete payroll. She has notes for completing payroll but there is no formal manual that an inexperienced employee could follow to complete the task. This leaves Graham LSD at risk that it may be unable to complete payroll or may have difficulty in completing its payroll run in the event of an unexpected absence by the Assistant Treasurer. Also, this reduces the District's ability to rotate job duties, a process that has a positive impact on internal controls.

Cross Training – Value in Today's Environment (SHRM, November 2001), suggests that cross-training can be beneficial to both the organization and to the employees. Most importantly, cross-training is invaluable if a jobholder leaves an organization, as someone else is able to perform duties until the position is filled. Small organizations can better accommodate employees' time off for personal reasons with the implementation of cross-training.

According to Payroll: A Guide to Running an Efficient Department (Lambert and Institute of Management and Administration (IOMA), 2005), an efficient payroll department has written procedures for each job or task it performs. Although writing procedures for a payroll department is an arduous and time-consuming task, it must be done for the department to function at peak efficiency. Written procedures ensure each task is done completely, accurately, and in the same manner every time it is performed. This enables the payroll department to perform each task correctly and consistently no matter how many times that duty is performed or who performs it. This is especially true in large departments; however, even single-person departments can benefit from written procedures. In addition, written procedures are helpful in training new or backup personnel.

Because the District does not have a formal manual or a back-up employee trained for the completion of the payroll function, it could experience a delay in processing payroll for employees in the case of an extended absence by the Assistant Treasurer.

R1.6 Implement a formal community feedback process.

The District should implement a formal community feedback process using online surveys to collect student, staff, parent, and constituent feedback. Graham LSD should also

consider forming a committee comprised of both community members and District administrative staff to review feedback and recommend strategies to address concerns. Incorporating these feedback mechanisms will increase the efficiency of District-wide strategic planning efforts and assist in aligning goals with stakeholder expectations.

Graham LSD has formally surveyed its community using online tools and has sought to address issues or speak to constituent concerns through its newsletter, the Tele-Graham. The District has also sought suggestions on areas where it could become more efficient to better meet the needs of its students and community. However, it does not regularly use surveys as a method for obtaining feedback nor does it have a committee comprised of both community members and District administrative staff to evaluate the feedback it receives and determine strategies to address constituent concerns.

Public Participation in Planning, Budgeting, and Performance Management (GFOA, 2009) suggests good public participation practices can help governments be more accountable and responsive and can also improve the public's perception of governmental performance. GFOA recommends that governments incorporate public participation efforts in planning, budgeting, and performance management processes. Information may be solicited for general purposes, such as strategic planning, or targeted information may be solicited as input for specific projects, plans, or initiatives. Common methods for soliciting input include the following:

- Surveys, either in person or via mail, phone, or Internet;
- Focus groups;
- Interviews;
- Comment cards;
- Public meetings, such as public hearings, "Town Hall" meetings, and community vision sessions; and
- Interactive priority setting tools.

Though Graham LSD has employed some of these methods, it has not enacted a comprehensive strategy to obtain and employ constituent feedback.

The District feels that it has an open line of communication with the community through use of its public meetings. It has seen little need to survey the community in previous years.

Using community surveys to ascertain the desires and concerns of stakeholders will enable the district to make better-informed decisions that include community input and ideas. This will increase community interaction and support within the District.

Human Resources

Background

This section of the performance audit focuses on the human resource functions of Graham Local School District (Graham LSD or the District). Operations were compared to recommended practices, industry standards, and the average of ten peer districts (see the **executive summary** for list of peer districts) for the purpose of developing recommendations to improve efficiency and business practices. Recommendations also identify potential cost savings for the District. Leading practices and industry standards were drawn from various sources including the Ohio Revised Code (ORC), the Ohio Administrative Code (OAC), the Society for Human Resource Management (SHRM), the Ohio Education Association (OEA), the Kaiser Family Foundation (Kaiser), the State Employment Relations Board (SERB), and the School Employees Health Care Board (SEHCB).

Organizational Structure

The District's major human resource functions are completed within the Superintendent's and Treasurer's offices. The Superintendent oversees management of the certificated and classified collective bargaining agreements and personnel management, as well as the recruitment and hiring process. Employee's within the Treasurer's Office process payroll, administer employee benefits, and enter staff data into the Education Management Information System (EMIS).

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 position codes. 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 2-1 illustrates staffing levels at Graham LSD and the FY 2009-10 average of the peer districts as reported to ODE through EMIS. According to the FY 2010 EMIS Reporting Manual instructions for reporting staff data, 1.00 full-time equivalent (FTE) is equal to the number of hours in a regular working day for that position as defined by the District. The FTEs in **Table 2-1** have been presented on a per 1,000 student basis because staffing levels are partially dependent on the number of students served. Presenting staffing data in this manner also eliminates variances attributable to the size of the peers.

Table 2-1: Staffing Comparison FY 2009-10

	Graham LSD		Peer Average		Difference	
	FTE Staff	FTE/1,000 Students	FTE Staff	FTE/1,000 Students	FTE Staff	FTE/1,000 Students
Administrative	12.50	6.30	12.60	7.40	(0.10)	(1.10)
Office/Clerical	15.00	7.60	11.00	6.30	4.00	1.30
Teaching	115.60	58.40	94.20	54.30	21.40	4.10
Education Service Personnel (ESP)	14.60	7.40	12.80	7.40	1.80	0.00
Educational Support	2.30	1.20	5.60	3.40	(3.30)	(2.20)
Other Certificated	5.40	2.70	0.80	0.40	4.60	2.30
Non-Certificated Classroom Support	15.00	7.60	11.90	6.90	3.10	0.70
Other Technical/Professional Staff	3.00	1.50	3.20	1.80	(0.20)	(0.30)
Other Student Services	2.00	1.00	2.00	1.10	0.00	(0.10)
Operations	59.00	29.80	42.30	24.10	16.70	5.70
Total Staff	244.40	123.50	196.40	113.10	48.00	10.40

Source: Graham LSD and peer EMIS staffing

As illustrated in **Table 2-1**, when compared to the peers, Graham LSD total staffing levels per 1,000 students are approximately 10.4 FTE per 1,000 students (or 9.2 percent) higher than the peers. The District's staffing levels are significantly higher in the following classifications:

- **Office / Clerical staffing:** includes bookkeeping and clerical staff. The District made some changes to the number of daily hours for selected clerical staff effective FY 2010-11. Those changes would reduce clerical FTE to 12.3 FTE. With the reductions in hours and days, the District's clerical staffing ratio is 6.93 FTE clerical per 1,000 students compared to the peer average of 6.30 FTE per 1,000 students.
- **Teaching:** includes all general education, music, art, gifted, preschool, physical education, and special education teachers. When reviewing the teaching ratios compared to the peers, it was determined that the teaching levels greater than the peer averages were due to special education staffing levels. A further review of special education was performed within the specialized programs section.
- **Other Certificated:** consists of staff categorized as other professionals. Graham LSD has coded the staff that works with the Digital Academies in this category. Graham Digital and A.B. Digital Academy pay the salaries of these staff. Therefore, a reduction of these staff would not result in a savings to the General Fund.
- **Non-certificated Classroom Support:** includes instructional paraprofessionals, teaching aides, and attendants. In FY 2009-10, the District used teaching aides to assist students with special needs. Usually, teaching aides work less than full-time hours and the District employed 12 teaching aides at the elementary school, 3 at the high school and 3 at the junior high school (a total of 15.0 FTEs). Of the 12 teaching aides at the elementary

school, 8 were paid from Title 1 funds, 2 were paid from IDEA funds and the remaining 2 were paid from the General Fund.

Compensation

Table 2-2 compares Graham LSD'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 that directly impact average salaries.

Table 2-2: Salary Comparison (FY 2009-10)

	Average Salaries			Salaries Per Student Educated		
	Graham LSD	Peer District Average	Percent Difference	Graham LSD	Peer Salaries per Student	Percent Difference
Administrative	\$79,909	\$65,503	22.0%	\$505	\$479	5.4%
Office/Clerical	\$29,287	\$27,152	7.9%	\$222	\$172	29.1%
Teaching	\$49,901	\$51,497	(3.1%)	\$2,916	\$2,791	4.5%
Education Service Personnel (ESP)	\$63,043	\$54,397	15.9%	\$466	\$403	15.6%
Educational Support	\$63,403	\$48,442	30.9%	\$75	\$161	(53.4%)
Other Certificated	\$39,748	\$15,133	162.7%	\$108	\$16	575.0%
Non-Certificated Classroom Support	\$15,766	\$13,008	21.2%	\$120	\$111	8.1%
Other Technical/Professional Staff	\$28,267	\$19,884	42.2%	\$43	\$39	10.3%
Other Student Services	\$57,102	\$36,479	56.5%	\$58	\$54	7.4%
Operations	\$20,221	\$21,136	(4.3%)	\$603	\$505	19.4%
Total Average Salary	\$41,399	\$42,012	(1.5%)	\$5,114	\$4,731	8.1%

Source: Graham LSD and peer districts EMIS Reports for FY 2009-10

As shown in **Table 2-2**, Graham LSD pays higher average salaries than the peer average in every category except teaching and operations. Efforts to make salaries more consistent with peer averages would require collective bargaining but would significantly reduce the long-term financial liabilities of the District.

Negotiated Agreements

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

- **Graham Education Association (GEA) Agreement:** Membership in this collective bargaining unit includes teachers and other professional certificated personnel. The collective bargaining agreement is effective from July 2010 through June 2013.
- **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 renegotiated and ratified in July 2010.

As part of the performance audit, certain contractual and employment issues were assessed and compared to the Ohio law and industry benchmarks.

Specialized Programs

Graham LSD's special education program assists students with special needs. During FY 2009-10, the District used the Champaign County Education Service Center for special needs services such as intervention specialists, gifted coordinator, and psychological services. As a result of budget constraints, Graham LSD has discontinued its contract with the ESC for intervention specialist services. The District's special education costs per special needs student are illustrated in **Table 2-3**.

Table 2-3: Special Education Comparison (FY 2008-09)

	Graham LSD	Peer Average	Variance
SPECIAL EDUCATION POPULATION			
Special Education Students 1	279	179	100
Special Education Students as % of Total Students	12.7%	9.9%	2.8%
% of Special Education Students Mainstreamed into Regular Classrooms	81.7%	90.2%	(8.5%)
SPECIAL EDUCATION EXPENDITURES PER SPECIAL EDUCATION STUDENT			
Direct Special Education Costs	\$2,444,244	\$1,425,434	\$1,018,810
Direct Special Education Costs Per Special Education Student	\$8,761	\$8,105	\$655
Special Education Portion of Support Services	\$768,087	\$474,140	\$293,947
Support Service Portion Per Special Education Student	\$2,753	\$2,652	\$101
Special Education Portion of Regular Instruction	\$923,791	\$649,140	\$274,651
Regular Instruction Portion Per Special Education Student	\$3,311	\$3,679	(\$368)
Total Special Education Expenditures			
Total Special Education Expenditures	\$4,136,122	\$2,548,713	\$1,587,409
Special Education Costs Per Special Education Student	\$14,825	\$14,436	\$388

Source: ODE Special Education Fiscal Accountability Report FY 2009

Graham LSD's special education expenditures, as shown in **Table 2-3**, are higher than the peer average by approximately \$400 per special education student. However, the level of severity of special needs students play a role in determining the number of students mainstreamed into regular classrooms as well as the expenditures incurred at each district.

Recommendations

R2.1 Develop and implement a formal staffing plan.

Graham LSD should establish a staffing plan that includes formal benchmarks for administrative, certificated, and classified personnel. Establishing benchmarks will assist the District in better planning for the future as staffing levels can be more easily determined based on District operating conditions.

The District does not have a formal staffing plan that determines staff levels based on enrollment or workload measures. The building principals determine how many teachers are needed at their respective buildings based on number of classes per subject area. There is no process or benchmark used for determining the need for non-instructional personnel; however, positions are filled when vacancies occur.

Strategic Staffing Plans (Society for Human Resource Management (SHRM), June 2002) notes that high performing organizations use 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. Leading practice organizations that use strategic staffing plans include Tulsa Public Schools (TPS) in Tulsa, Oklahoma; Lakota Local School District in Butler County, Ohio; and Cincinnati City School District in Hamilton County, Ohio. In general, these staffing plans incorporate state and federal regulations, workload measures, and industry benchmarks, as well as staffing levels determined by district administrators. The plans outline the allocation of regular and special education, administrative, other instructional, clerical, custodial, and food service staff using recommended practices and national workload measures. These plans use an assortment of variables and formulas to guide the individuals responsible for making staffing decisions.

Formal staffing plans are relatively new concepts to local governments. Graham LSD is not required to implement a staffing plan and has not identified it as a planning need.

In the absence of a formal staffing plan, Graham LSD risks over or under-staffing critical areas and being unable to perform at an optimal level, especially considering the District's changing enrollment. By implementing a staffing plan and updating it on an annual basis, Graham LSD will be better prepared to make changes to staffing levels in response to its enrollment and financial condition. A staffing plan could be completed by existing District staff at no additional cost.

R2.2 Eliminate up to 16.0 regular education FTEs, bringing the District to State minimum levels.

In the event Graham LSD must identify significant cost reductions to remain solvent, the District could eliminate up to 16.0 FTE regular teaching positions to bring its overall regular student-to-regular teacher level to the State minimum ratio of 25:1. Furthermore, the District should examine its regular classroom teaching staff at each grade level to

determine if student instruction is being maintained in the optimal manner for its students and the District. Specifically, the District should determine if it has achieved the appropriate blend of teachers and support personnel in the classroom or if alternatives exist that would reduce costs. During this process, Graham LSD should consider the financial and academic impact potential staffing changes may have. It should consider developing a series of scenarios associated with the forecast scenarios discussed in R1.4, incorporating staffing modifications to address each level of potential funding reduction.

Table 2-4 shows the comparison between general education teachers and State minimum requirements.

Table 2-4: Graham LSD Regular Teacher Ratios

Comparison to State Minimum Requirements	FTE Teachers
General Education Teachers	87.4
State Minimum Required Regular Teachers	71.4
Regular Teachers Above State Minimum Requirement ¹	16.0

Source: Graham LSD staffing data as data as reported to ODE.

Note: Totals may vary due to rounding.

¹Represents the number of FTEs that when added or subtracted would bring Graham LSD's number of regular students per regular teacher in line with the peer average.

As illustrated in **Table 2-4**, Graham LSD employed 16.0 FTEs more than the State minimum requirement. During FY 2009-10, the District's regular student enrollment was 1,785 students, and the student-teacher ratio was 20.4 students per regular teacher.

OAC 3301-35-05 requires the ratio of teachers to students district-wide to be at least 1 FTE classroom teacher for each 25 students in the regular student population on a district-wide basis.

The slightly higher than average FTE regular education teachers employed at Graham LSD compared to the peers (see **Table 2-1**) results from several factors. These factors include the District's certificated collective bargaining agreement and variances in student Average Daily Membership (ADM) by grade level. Also, the District does not have a staffing plan that anticipates changes in enrollment and other factors listed.

Reducing general education teachers to State minimum levels would result in significant cost savings to Graham LSD but would likely impact educational programs. The District may need additional savings to achieve a balanced budget in upcoming fiscal years. For each regular education teaching position eliminated, Graham LSD would save approximately \$70,000 in salaries and benefits. However, it would incur severance and unemployment costs that would offset this savings in the first year.

Financial Implication: The elimination of 16 FTE regular teachers would result in annual savings of approximately \$1.1 million in salaries and benefits. This estimate of savings would increase if the reduction occurs through retirement or voluntary separation of more experienced or higher salaried staff.

R2.3 Eliminate 3.0 FTE clerical staff.

Graham LSD should eliminate up to 3.0 FTE clerical positions. A reduction of 3.0 FTE clerical positions would bring Graham LSD in line with the peer average and reduce the District's salary and benefit costs. Savings from reduced salary and benefits could be used to reduce projected deficits.

Table 2-5 compares the clerical staffing level to the peer district average.

Table 2-5: Office/Clerical Staffing Comparison (in FTEs)

	Graham LSD ¹	Peer District Average ²	Difference from Peer Districts
Total Office / Clerical Staff	15	11	4
Students Educated ³	1,979	1,748	231
Clerical Staff per 1,000 Students	7.6	6.3	1.3

Source: Graham LSD HR Department FY 2009-10 staffing data and peer district FY 2009-10 EMIS staffing data as reported to ODE. Peer district data has not been tested.

¹FY 2009-10 FTE employees were provided by Graham LSD and therefore may not match those reported to ODE through EMIS.

² Average of FY 2009-10 staffing levels as reported to ODE through EMIS.

³ Students educated equals FTE students receiving educational services from the districts and excludes percent of time students are receiving educational services outside the district.

Table 2-5 shows that Graham LSD maintains a clerical staffing level of 7.6 clerical staff per 1,000 students while the peer average is 6.3 per 1,000 students. In order for Graham LSD to maintain a clerical staffing level that is consistent with that of the peers, it would need to eliminate 3.0 FTE clerical staff positions.

Staffing levels in excess of the peer district average are indicators of staffing inefficiency and detract from the District's cost-effectiveness. For each clerical position eliminated, Graham LSD would save approximately \$40,500 in salaries and benefits.

Financial Implication: By eliminating 3.0 FTE clerical staff positions, Graham LSD would save approximately \$122,000 in salaries and benefits in FY 2011-12.

R2.4 Eliminate 2.0 FTE teaching aides.

Graham LSD should eliminate up to 2.0 FTE teaching aide positions in order to bring staffing levels in line with the peer average. A elimination of 2.0 FTE teaching aide positions would allow Graham LSD to maintain an acceptable staffing level in this category while reducing expenditures and increasing efficiency.

Table 2-6 compares the FTE teaching aide staffing level to the peer average.

Table 2-6: Teaching Aide Staffing Comparison (in FTEs)

Employment Classification	Graham LSD ¹	Graham LSD FTEs per 1,000 Students	Peer District Avg. ²	Peer District Avg. per 1,000 Students	Difference per 1,000 Students
Teaching Aides	15.0	7.6	7.5	4.3	3.3
Instructional Paraprofessionals	0.0	0.0	4.4	2.6	(2.6)
Total Teaching Aides & Paraprofessionals	15.0	7.6	11.9	6.9	0.7

Source: Graham LSD HR Department FY 2009-10 staffing data and peer district FY 2009-10 EMIS staffing data as reported to ODE. Peer district data has not been tested.

¹ FY 2009-10 FTE employees were provided by Graham LSD and therefore may not match those reported to ODE through EMIS.

² Average of FY 2009-10 staffing levels as reported to ODE through EMIS.

Table 2-6 shows that Graham LSD employs 15.0 FTE teaching aides or 7.6 FTEs per 1,000 students—higher than the peer average of 4.3 FTEs per 1,000 students. In order to make staffing levels consistent with the peer average, Graham LSD would need to eliminate up to 2.0 FTE teaching aides.

Staffing levels in excess of the peer average indicate staffing inefficiencies and result in more costly funding allocations to personnel. For each teaching aide position eliminated, the District could save about \$22,000.

Financial Implication: By eliminating 2 FTE teaching aide positions, Graham LSD would save approximately \$44,000 in salaries and benefits in FY 2011-12.

R2.5 Discontinue paying the additional retirement benefit for administrative employees.

Graham LSD should cease paying the employee's share of the retirement benefit for administrative positions. Covering the required employee retirement contribution is costly to the District and this benefit is a form of compensation the Board is not required by law to provide. Eliminating this benefit will reduce expenditures and may allow the District to avoid staffing reductions in other areas that directly affect the education of students.

The District pays both the employer and the entire employee share of the retirement benefit plus an additional 1 percent for four District employees. Those four positions are:

- Director of Alternative Programming;
- Principals (2); and
- Superintendent.

The District also pays the employer and a portion of the employee share plus an additional 1 percent for six other District employees. Those positions include:

- Assistant Principal;
- Athletic Director;

- Principal (3); and
- Special Education Director.

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. However, a board may elect to also pay the employee contribution (pick-up), plus an additional amount to cover the retirement contribution applied to its payment of the employee's contribution (pick-up on the pick-up)

Paying all or a portion of the employee's share of retirement contributions allows some districts to control administrative salary costs and attract administrative personnel by offering these fringe benefits in lieu of a higher salary. In many cases, paying a portion of the employee's retirement was provided in lieu of a higher starting salary or a pay increase. However, this becomes a form of hidden compensation as districts rarely report total compensation.

Discontinuing this benefit would result in a cost savings to the District and help it avoid reductions in other areas.

Financial Implication: Eliminating the retirement pickup for administrative staff would generate cost savings of approximately \$56,000 per year, based on FY 2010-11 wages.

R2.6 Implement a sick leave abuse policy to control sick leave use.

Graham LSD should develop and implement a sick leave abuse policy. The sick leave abuse policy should clearly define what Graham LSD considers a pattern of abuse and should indicate that if an employee engages in a pattern of abuse, he or she may be subject to disciplinary action. The policy would help ensure that employees are not abusing leave, help better control leave use, and should increase productivity within the District.

The District's employees receive sick leave days to be used in the event of illness or injury to 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. Graham LSD does require a doctor's excuse if employees take more than five consecutive sick leave days. **Table 2-7** compares the District's FY 2009-10 sick leave usage with DAS averages.

Table 2-7: Sick Leave Comparison

Certificated Sick Leave Use	
	FY 2009-10
Number of Employees	151.0
Sick leave (days)	1,251.8
Sick leave (hours)	10,014.4
Hours per Employee	66.3
OEA State Average	68.5
Hours per Employee above State Average	(2.2)
Classified Sick Leave Use	
	FY 2009-10
Number of Employees	99.0
Sick leave (days)	1,200.3
Sick leave (hours)	9,602.4
Hours per Employee	97.0
AFSCME	69.1
Hours per Employee above State Average	27.9
Combined Sick Leave Use	
	FY 2009-10
Number of Employees	250.0
Sick leave (days)	2,452.1
Sick leave (hours)	19,616.8
Hours per Employee	78.5
OEA State Average	68.8
Hours per Employee above State Average	9.7

Source: Graham LSD Leave Reports and Department of Administrative Service Leave Report

As shown in **Table 2-7**, Graham LSD classified staff used 27.9 more hours per employee above the State average. The District has not negotiated a leave abuse policy in its collective bargaining agreements or implemented one as part of Board policy.

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.

High sick leave use can be attributed to a variety of factors. However, failing to manage leave time has an overall detrimental effect on the frequency of leave usage. Graham LSD has not compared its sick leave use to benchmarks to identify high use patterns by its classified staff.

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. A formal sick leave policy will help define sick leave abuse and outline the disciplinary actions resulting from leave abuse. Applying formal leave usage management practices may help Graham LSD better control sick leave use and reduce its costs for overtime and use of substitutes.

R2.7 Implement guidelines and ensure staff receive training to improve the accuracy of EMIS data.

Graham LSD 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 improve the accuracy of data entered and assist in accurate staffing assessments.

Data 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 also be used by districts when making management decisions, including compliance with required staffing levels. The District’s EMIS reports list employees with incorrect position codes and inaccurate FTE totals. Staffing data is entered into EMIS by the Treasurer’s Office and reviewed by the EMIS Coordinator. The EMIS Coordinator has attended EMIS training; however, other District employees responsible for EMIS submission have not received training.

ORC 3301.0714 contains guidelines for the EMIS system, specifically 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 that outlines specific instructions for EMIS data submission. The data should be submitted in accordance with EMIS manual instructions. The manual includes procedures for ensuring the accuracy and completeness of the data before submission as well as 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.

Improperly entering information can cause the District to over- or under-report the number of employees, the hours they work, and their annual wages, impacting the accuracy of State reports and potentially affecting funding allocations. 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.

Facilities

Background

This Section focuses on custodial and maintenance staffing, facilities operations and expenditures, and facilities planning in Graham Local School District (Graham LSD or the District). The District's operations were evaluated against leading practices and industry standards, including American Schools and Universities (AS&U) the National Center for Education Statistics (NCES), and the Association of School Business Officials International (ASBO), as well as selected peer districts that are described in the **executive summary**. Comparisons were made for the purposes of developing recommendations to improve efficiency and/or business practices, and where appropriate, to reduce expenditures.

Summary of Operations

Graham LSD uses and maintains four buildings: the high school (grades 9 through 12), the middle school (grades 5 through 8), and the elementary school (grades Kindergarten through 4). The Administration building is used for District offices.

Table 3-1 illustrates the District's and peer expenditures for comparison purposes, as well as national benchmarks where appropriate.

Table 3-1: Key Facility Expenditure Statistics

Cost Area	Graham LSD	Peer Average	Dollar Difference vs. Peers	Percent Difference vs. Peers	AS&U National Median	Dollar Difference vs. AS&U	Percent Difference vs. AS&U
District Square Feet	374,000	284,974					
Salaries per Square Foot	\$1.36	\$1.51	(\$0.15)	(9.9%)	N/A	N/A	N/A
Benefits per Square Foot	\$0.58	\$0.67	(\$0.09)	(13.6%)	N/A	N/A	N/A
Salaries & Benefits per Square Foot	\$1.94	\$2.18	(\$0.24)	(11.0%)	\$2.56	\$0.62	(24.2%)
Purchase Service (excl. utilities) per Square Foot	\$0.37	\$0.69	(\$0.31)	(45.7%)	\$0.01	(\$0.36)	3,600.0%
Utilities per Square Foot	\$1.64	\$1.48	\$0.16	10.5%	\$1.71	\$0.07	(4.1%)
Gas per Square Foot	\$0.53	\$0.46	\$0.07	15.5%	\$0.39	(\$0.14)	35.9%
Electricity per Square Foot	\$1.00	\$0.92	\$0.08	9.1%	\$0.80	(\$0.20)	25.0%
Water & Sewage per Square Foot	\$0.11	\$0.08	\$0.03	41.1%	N/A	N/A	N/A
Supplies & Materials per Square Foot	\$0.17	\$0.37	(\$0.20)	(53.3%)	\$0.32	\$0.15	46.9%
Other per Square Foot	\$0.12	\$0.13	(\$0.01)	(7.1%)	N/A	N/A	N/A
Total EFM Expenditures per Square Foot	\$4.24	\$4.85	(\$0.61)	(12.5%)	N/A	N/A	N/A
Total General Fund Expenditures per Square Foot	\$3.90	\$4.67	(\$0.77)	(16.4%)	N/A	N/A	N/A

Source: District and peer EFM 2700 data, AS&U statistics

The District spends less per square foot on salaries and benefits, purchased services, and supplies and materials. Graham LSD is slightly above the peer average in utility expenditures but below the AS&U national average in this category. **Table 3-2** compares operational benchmarks at Graham LSD to the peers and national standards.

Table 3-2: Key Statistics and Indicators

Buildings	
Total Number of Building	4
Elementary Schools	1
Middle Schools	1
High Schools	1
Other Buildings	1
Square Feet	
Total Square Feet Maintained	374,000
Total Square Feet Cleaned	374,000
Elementary School(s)	124,000
Middle School(s)	103,000
High School(s)	126,000
Other Buildings	21,000
Acres	
Total Acres Maintained	88.0
Staff Levels (FTEs)	
District-wide Maintenance Staff	2.5
District-wide Custodial Staff	12.5
Elementary School(s)	3.0
Middle School(s)	4.0
High School(s)	5.0
Other Buildings	0.5
District-wide Groundskeeping Staff	0.0
Workload Ratios	
Total Square Feet Maintained per FTE	149,600
<i>AS&U Cost Survey National Median¹ (Sq. Ft. per FTE)</i>	<i>95,000</i>
Total Square Feet Cleaned per FTE	29,920
Elementary School(s)	41,333
Middle School(s)	25,750
High School(s)	25,200
Other Buildings	42,000
<i>NCES Planning Guide Benchmark² (Sq. Ft. per FTE)</i>	<i>29,500</i>
<i>APPA Level 4 Benchmark³ (Sq. Ft. per FTE)</i>	<i>39,500</i>
Total Acres Maintained per FTE	NA⁴
<i>AS&U Cost Survey National Median² (Acreage per FTE)</i>	<i>40.0</i>

Source: Graham LSD, AS&U, NCES and APPA.

¹The AS&U 35th Maintenance & Operations Cost Study is based on a national survey that is released in April each year. The national medians used as benchmarks are for school districts with between 1,000 - 3,499 students.

² According to the NCES Planning Guide for Maintaining School Facilities, 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. Therefore, a benchmark of 29,500 square feet per FTE custodian was applied in the analysis. This benchmark is acceptable to most stakeholders and does not pose any health issues. The AS&U 35th Maintenance & Operations Cost Study is based on a national survey that is released in April each year. The national medians used as benchmarks are for school districts with enrollments between 1,000 - 3,499 students.

³ According to the APPA: The Association of Higher Education Facility Officers.

⁴Graham LSD custodial staff job-share; therefore, no staff are used exclusively for snow and groundskeeping.

Recommendations

R3.1 Eliminate 3.0 custodial FTEs and alter cleaning standards to achieve a higher custodial cleaning workload and reduce costs.

Graham LSD should review its plans and procedures to establish a higher targeted benchmark for duties performed by the custodial staff. The District should develop training and implement an updated handbook that provides guidance on expected cleaning standards and measures to increase the amount of square footage cleaned by a custodial FTE. If the District can increase its cleaning level to 39,500 square feet, it could reduce 3 custodial FTEs. A Level 4 cleaning standard would be lower than the level currently employed by the District but would generate significant cost savings.

The District employs 12.5 custodial FTEs to clean its buildings. The custodians have a cleaning schedule that describes the daily and other scheduled duties. The day shift cleans locker rooms, offices, and other rooms that are not classrooms. The staff also dusts and mops hallways, turns on lights, and unlocks doors. The second shift cleans classrooms and other offices, and dust mops the building from front to back. In addition, the second shift replaces bathroom supplies; dust mops all floors, and cleans the cafeteria. These duties are performed daily.

Custodial Staffing Guidelines for Educational Facilities (APPA, 1998) explains that the APPA methodology for custodial staffing proportions personnel requirements to the cleanable square feet of the space. The APPA methodology takes into account the following:

- Appearance levels– If cleaning activities are accomplished with decreasing frequency, appearance will suffer. There is a direct correlation between the available amount of resources and the appearance of the facilities. Therefore, the level of cleanliness is tied to the number of workers required to produce a given level of appearance.
- Standard spaces – Not all spaces are created equal. Different types of space require different types and amounts of cleaning effort. APPA established 33 standard area types and identified activities required to achieve each level of cleanliness.
- Assignable square feet (cleanable square feet) – The industry standard of measure by which comparisons can be made.

APPA suggest that custodians should be focused on cleaning rather than performing maintenance work. Therefore, any duties necessary to maintain the buildings should be shifted to maintenance staff. In order to reduce staff, the District will need to adopt a level 4 cleaning standard, increasing the cleaning space per FTE from the AS&U's standard of 29,500 to 39,500 square feet. As explained by the NCES, this standard entails a reduction in cleaning frequency of classrooms to an every other day schedule.

In order to achieve this benchmark, the District would need to implement training to address cleaning concerns and establish clear guidelines for a new cleaning schedule. According to the

NCES, a custodian should be able to clean between 45,000 and 50,000 square feet in 8 hours using an every other day classroom cleaning schedule. If the District adopts a square footage cleaning level of 39,500, it could enable the custodian to perform additional cleaning duties during an 8 hour shift. ISSA has developed a time schedule prescribing the amount of time each custodial task should take to perform. The District could use this as a guideline to help schedule duties performed by the custodians in order to help increase cleaning targets.

Although the District has staffed its custodians at the AS&U benchmark average of cleaning 29,500 square feet, it could consider using a higher average benchmark to reduce staff costs. In order to do so, the District will need to adopt a new training schedule and potentially accept a lower cleaning standard.

Implementing higher workloads and reducing the cleaning level would permit Graham LSD to reduce its custodial staffing. If the District increases its cleaning square footage and provides training to achieve the new cleaning goals, it could reduce custodial staff by 3.0 FTEs. This change in workloads and standards would require some initial investment on the part of the District for training and an updated custodial manual.

Financial Implication: The District could save approximately \$85,500 in salaries and benefits through the elimination of 3.0 FTE custodial positions.

R3.2 Implement an energy management plan to help reduce utility costs.

Graham LSD should consider implementing an energy management plan that helps the District control its energy use and reduces its utility costs. The District should train staff and establish an awareness program for students to follow its energy management practices. Additionally, the District could undergo an energy audit provided by its local energy company to identify ways to increase energy efficiency.

Graham LSD does not have an energy management policy and procedures manual that serves as a guide to help control energy costs. The District's new high school building was rated very high in energy efficiency and the two other school buildings are under renovation. The District performed two retrofitting projects in the past but has not developed an energy management policy or manual.

According to the National Energy Education Development Project's (NEED) Energy Managements Guide (2007), energy costs are often the most controllable items of a school's budget after personnel costs. Through policies and the actions of decision-makers, occupants, and students, energy consumption can be reduced, resulting in an immediate cost avoidance. The savings can be sustained through on-going monitoring and energy awareness training.

The NEED Energy Management Guide prescribes the following steps to design an energy management program:

- Make a commitment to Energy Management;
- Assess Performance and Set Goals;

- Create an Energy Management Action Plan;
- Implement the Energy Management Action Plan;
- Monitor and Evaluate Progress; and,
- Recognize Energy Management Achievements.

The Mansfield City School District has developed an energy conservation policy that provides tips and techniques to conserve energy use. Procedures cover temperature control and water conservation issues.

Dayton Power & Light Company (DP&L) offers governments an energy audit to identify cost savings and energy efficiency recommendations. According to the audit program, governments can be reimbursed 50 percent of the costs of the audit. In addition, the government will receive the remaining 50 percent reimbursement once the recommendations are implemented. The District uses DP&L in its elementary and middle school.

Graham LSD has relatively up to date buildings and has not prioritized the need for additional energy management policies to help it save money.

In the absence of a formal energy management policy or manual, the District is less effective in controlling its energy costs. If a plan is implemented, all District employees and students can be aware and involved in helping avoid unnecessary energy costs. By undergoing an energy audit, the District would have information on how it could improve energy management in its school buildings and incorporate appropriate goals into an energy management plan. Increasing its focus on energy management could help Graham LSD save between 5 and 15 percent on its utility bills. However, because this amount is highly variable and dependent on volatile energy costs and efforts made to date, a reliable financial implication cannot be determined.

Transportation

Background

This section of the performance audit focuses on Graham Local School District's transportation operations. Transportation operations were evaluated against best practices, operational standards, and selected peer school districts. Comparisons were made for the purpose of developing recommendations to improve the efficiency and effectiveness of business practices and, where appropriate, to reduce expenditures. The peers were selected from districts whose transportation environment is most similar to Graham LSD's in terms of district size, population density, and other demographic factors; these are discussed in greater detail in the *scope and methodology* portion of the **executive summary**. Throughout this section, leading practices and operational standards were drawn from various sources, including the Ohio Department of Education (ODE), Government Finance Officers' Association (GFOA), National Association of State Directors of Pupil Transportation Services (NASDPTS), and other school transportation departments.

Transportation Policy

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 (K-8) who live more than two miles from their assigned schools. Districts are also required to provide transportation to community school and non-public school students on the same basis as provided to their own students. In addition, districts must provide transportation to disabled students who are unable to walk to school, regardless of distance. Finally, when required by an individualized education program (IEP), districts must provide specialized, door-to-door transportation for special needs students based on the unique needs of the student.

The District's policies outline the established service levels provided by its transportation operations. Eligible riders include elementary, middle, and high school students who reside more than 1 mile from school. Graham LSD modifies eligibility requirements when safety concerns and feasibility of walking outweigh arbitrary boundaries. During FY 2009-10, the District also transported students residing less than one mile from school due to safety concerns.

Operating Environment

Graham LSD provides transportation to eligible regular and special needs riders using Board-owned and operated buses (yellow buses). The buses, as well as the District's fuel tanks, are located in a fenced area to ensure the security of the transportation fleet, equipment, and supplies. Some drivers, however, are allowed to take buses home. (See *issues for further study*.)

The Transportation Supervisor, who reports to the Superintendent, manages the Transportation

Department. In FY 2008-09, 25 employees, including the Transportation Supervisor, staffed the transportation operation. The Supervisor and transportation secretary share the responsibility of coordinating bus services, including dispatching, routing, clerical support, and reporting. The Department employed 23 bus drivers and various substitute drivers to transport regular and special needs students. The transportation operation contracts for its mechanic function.

Historically, the ridership for the District has been relatively consistent while experiencing a small reduction in recent years. During FY 2009-10, the District reported 1,543 yellow bus riders, including public, community school, and special needs children. Similarly, the District's average miles driven have remained consistent at approximately 2,600 daily miles. The transportation costs of the District have reflected an overall 1.8 percent increase from FY2007-08 to FY 2009-10. The FY 2009-10 costs were adjusted during the course of the audit to a total of \$1,339,391 (See **R4.1**). The small incremental change in costs can be attributed to a reduction in the cost of diesel fuel from the high prices in FY 2007-08. This reduction bridged the gap between the increased expenditures for salaries and insurance and made the overall cost increase over the last three years minimal.

Operating Statistics

Each school district in Ohio is required to report detailed information about its annual transportation operations to ODE through the completion and submission of T reports. The T-1 report provides information on students, buses, and miles driven. The T-2 report provides the expenses incurred in the transportation of students to and from school. ODE provides T report instructions on how to complete the forms as well as online video modules to help train management on how to review the reports for accuracy before submission. Graham LSD submits the required reports in a timely manner; however, the District does not have a formal procedure in place to ensure compliance with ODE instructions and the accuracy of its transportation information (see **R4.1**).

Table 4-1: Transportation Key Statistics FY 2009-10

Key Statistics	Graham LSD	Peer Average FY 2009-10	Difference vs. Peers	Percent Difference vs. Peers
Square Miles	182.0	179.4	2.6	1.4%
ODE Enrollment	2,267.0	1,879.6	387.4	20.6%
Total Students Transported (All Types)	1,564.0	1,277.0	287.0	22.5%
Yellow Bus Riders (Type I)				
Public	1,520.0	1,252.2	267.8	21.4%
Non-Public	0.0	8.4	(8.4)	(100.0%)
Community School	17.0	0.0	17.0	100%
Special Needs	6.0	8.6	(2.6)	(30.2%)
Total Yellow Bus Riders	1,543.0	1,269.2	273.8	21.6%
Buses (Type I)				
Active Buses	32.0	24.0	8.0	33.3%
Spare Buses	23.0	16.8	6.2	36.9%
Miles (Type I)				
Annual Routine Miles	472,500	317,232	155,268	48.9%
Annual Non-routine Miles	28,929	23,617	5,312	22.5%
Total Miles	501,429	340,844	160,585	47.1%

Source: Graham LSD and Peer T reports.

As shown in **Table 4-1**, the District's size is similar to the peer average square miles. The District has a higher enrollment than the peers and transports approximately 22.5 percent more students. The District travels approximately 48.9 percent more routine miles on an annual basis.

Table 4-2 shows an operating comparison between Graham LSD and the peer average.

Table 4-2: Transportation Operating Comparison FY 2009-10

Operating Ratios	Graham LSD	Peer Average FY 2009-10	Difference vs. Peers	% Difference vs. Peers
Enrollment per Sq. Mile	12.5	10.6	1.9	17.9%
Daily Miles per Yellow Bus Rider	1.7	1.5	0.2	13.3%
Riders Per Square Mile	8.5	7.2	1.3	18.1%
Yellow Bus Riders per Active Bus	67.1	73.9	(6.8)	(9.2%)
Routine Miles per Active Bus	20,543	18,908	1,635	8.6%
Non-routine Miles % of Total Miles	5.8%	7.1%	(1.3%)	(18.3%)
Non-routine Miles per Enrollment	12.8	14.4	(1.6)	(11.1)
Spare Bus Ratio	28.1%	30.1%	(2.0%)	(6.6%)
Percent Public Riders	98.5%	98.6%	(0.1%)	(0.1%)
Percent Special Need Riders	0.4%	0.5%	(0.1%)	(20.0%)
Percent Non-public & Community School Riders	1.1%	0.8%	0.3%	37.5%
Public Riders % of Total Enrollment	67.0%	68.8%	(1.8%)	(2.6%)

Source: Graham LSD and Peer T reports

As shown in **Table 4-2**, the District ridership is 9.2 percent lower than the peers on active buses, resulting, in part, from the large geographic area of the District and the location of its buildings in relation to the population centers. Graham LSD is similar in comparison to the peers in its spare bus ratio, percent of public riders, and riders as a percentage of total enrollment.

Table 4-3 shows the cost of transportation at Graham LSD compared to the peer average.

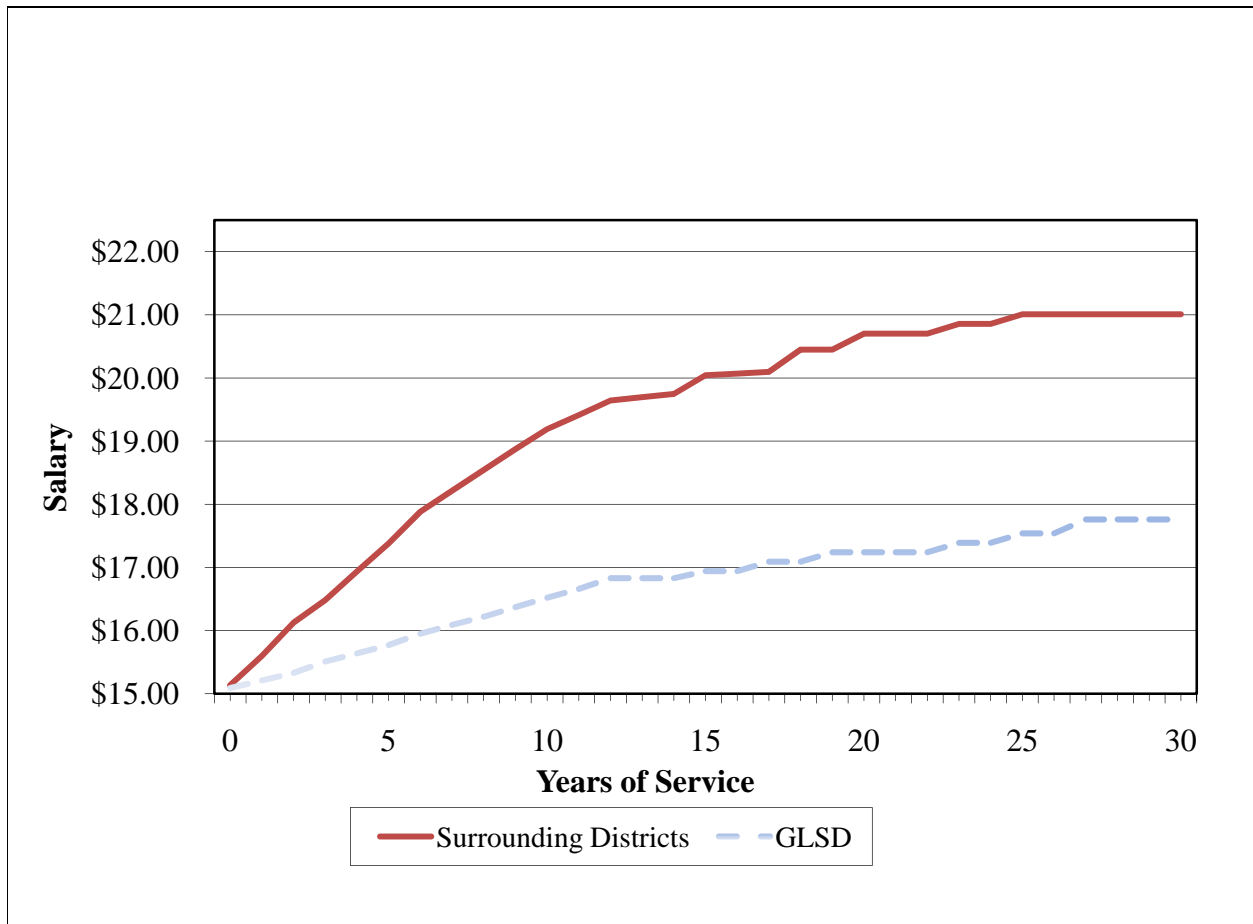
Table 4-3: Transportation Costs Comparison FY 2009-10

	Graham LSD	Peer Average	Difference vs. Peers
Salaries			
· Per Yellow Bus Rider	\$384.76	\$273.03	40.9%
· Per Active Bus	\$25,812.61	\$20,178.71	27.9%
· Per Routine Mile	\$1.25	\$1.07	16.8%
Benefits			
· Per Yellow Bus Rider	\$258.64	\$163.16	58.5%
· Per Active Bus	\$17,351.39	\$11,931.40	45.4%
· Per Routine Mile	\$0.84	\$0.63	33.3%
Maintenance & Repairs			
· Per Yellow Bus Rider	\$98.50	\$104.73	(5.9%)
· Per Active Bus	\$6,607.96	\$7,690.25	(14.1%)
· Per Routine Mile	\$0.32	\$0.41	(22.0%)
Fuel			
· Per Yellow Bus Rider	\$109.29	\$94.94	15.1%
· Per Active Bus	\$7,331.91	\$6,891.65	6.4%
· Per Routine Mile	\$0.36	\$0.37	(2.7%)
Bus Insurance			
· Per Yellow Bus Rider	\$11.84	\$12.16	(2.6%)
· Per Active Bus	\$794.30	\$868.32	(8.5%)
· Per Routine Mile	\$0.04	\$0.05	(20.0%)
All Other Costs			
· Per Yellow Bus Rider	\$5.01	\$13.14	(61.9%)
· Per Active Bus	\$336.22	\$1,038.87	(67.6%)
· Per Routine Mile	\$0.02	\$0.06	(66.7%)
Total Expenditures			
· Per Yellow Bus Rider	\$868.04	\$661.16	31.3%
· Per Active Bus	\$58,234.39	\$48,599.20	19.8%
· Per Routine Mile	\$2.83	\$2.59	9.3%

Source: Graham LSD and Peer T reports.

As shown in **Table 4-3**, Graham LSD's total costs are higher than the peer average. These costs are specifically driven by salaries and benefits. The District's salaries are higher than the peer average in all three categories. On a per active bus basis, the salaries are 27.9 percent higher than the peers. A comparison of the driver's step schedule was made between Graham LSD and surrounding districts to determine if salaries were higher in the same job market. The following **Chart 4-4** depicts the comparison between step schedules.

Chart 4-4: Step Schedule Comparison



Source: Graham LSD and surrounding districts (Miami East LSD, Urbana CSD, and West Liberty LSD) step schedules.

As shown in **Chart 4-4**, the District has significantly lower step increases than the surrounding districts. Therefore, the salary schedule does not have a negative impact on the cost of transportation. According to the District’s bargaining contract, drivers are paid based on the routing time and are not guaranteed hours. However, the size of the District and longer route times (based on its bell schedule) do have an impact on the salary costs. During FY 2010-11, the District was able to redesign its routes and eliminate one bus, thereby reducing costs.

Table 4-3 also shows the District has significantly higher health insurance costs when compared to the peer average. On a per bus basis, health insurance costs are 45.4 percent higher than the peers. Graham LSD has changed its health insurance plan for FY 2010-11 and was able to establish a health care savings account, greatly reducing costs for health insurance.

In the area of maintenance and repairs, Graham LSD’s costs are lower than the peer average in all categories. The District’s Transportation Department performs light maintenance on its buses. For preventive maintenance and major repairs, the District uses a local mechanic. The mechanic tracks maintenance and invoices the District for the cost of repairs. Also, Graham LSD’s

fuel costs are lower on a per mile basis and higher on a per student and bus basis. The District contracts with a third party and has its diesel fuel delivered in bulk to its tank facility. The tank facility is located in the bus compound that is gated and locked. The fuel tanks are not modernized but fuel tickets are completed by all users. The higher per bus fuel costs indicate that each bus uses more fuel, but also travels more miles. Therefore, on a per mile basis, the District's cost is about 3 percent below the peer average.

Recommendations

R4.1 Establish written procedures, attend training, and employ effective review procedures for transportation reporting to ODE.

Graham LSD should establish written procedures to ensure that the transportation information reported to ODE through the T report process is accurate. The Superintendent and Treasurer should follow ODE's process for review. The Transportation Supervisor should perform a thorough review and comparative analysis of the T reports before submission for review and approval by the Superintendent and Treasurer. The Treasurer's Office should use the USAS coding system to code the transportation costs properly as prescribed by ODE's T reporting instructions and the ORC. Lastly, the Transportation Secretary should attend ODE's T report training to learn how to accurately compile reports and remain updated on the T reporting process and procedures.

The District does not have written procedures to ensure that information is accurate when submitting T reports to ODE. The Superintendent and Treasurer also have not attended training on the T-report review process. The District's Transportation Supervisor compiles both the T-1 and T-2 reports for submission to ODE. The T-1 report information is taken from the average ridership indicated by the daily count sheet during the first full week of October. When compiling the T-2 report, the Transportation Secretary requests an expenditure report from the Treasurer's Office for the amounts. Once compiled, the Transportation Supervisor reviews the T reports and submits them to the Treasurer and Superintendent for approval and final submission.

When testing the accuracy and the review process for submitting T data, auditors noted errors in the submissions. The T-1 report count sheets did not contain the correct average when compared to a sample of ridership averages. The T-2 report showed approximately \$117,000 more in expenditures than could be substantiated by the supporting documentation. The Treasurer's report also had coding errors that were not detected during the District's review process. For example, employee insurance amounts allocated to special needs were overstated by approximately \$108,000. In addition, salaries were understated by \$46,417.

Auditors noted that the accounting report used to compile the data did not use the appropriate USAS function codes to account for transportation costs. The Treasurer's Office used function codes 2821 (special needs transportation) and 2829 (other transportation costs) but did not use the 2822 function for regular transportation costs. In addition, it was difficult to distinguish between regular transportation, special needs, and other transportation costs that were incurred by the District, or to determine if all non-routine busing costs were excluded from the T-2 report. Additionally, the Treasurer's Office does not differentiate between the cost of fuel used by the Transportation Department, other departments, and facilities operations. Instead, the total fuel expenditure amount was included on the T-2 report.

Overall, management of the T reporting process appeared to be disorganized. There was not a clear line of responsibility among staff members or clear reporting relationships. Discussions

with the Transportation Supervisor, Transportation Secretary, and Assistant Treasurer revealed that expenditures may not be coded in accordance with USAS and no reconciliation of information is performed between the Transportation Department and Treasurer's Office.

OAC 3301-83-14 requires each school transportation vehicle owner to maintain an accounting system for fuel consumption, costs for routine and non-routine use of school buses, and annual operating costs by vehicle and by fleet as prescribed by the Ohio Department of Education for T-2 reporting, if applicable. The Ohio Department of Education has established rules for T-1 and T-2 reporting and processing that are available on line. According to the T-2 instructions, supporting documentations should be maintained for five years and reasonably substantiate the process for compiling the reported data. Lastly, the Uniform School Accounting System provides function codes that separate expenditures for regular bus, special needs bus and other transportation.

According to the ODE training module for the review of T-1 and T-2 reports, the Superintendent and Treasurer are required to perform a thorough review of the T reports before electronically signing the reports for ODE approval. The Treasurer and Superintendent should compare all report functions such as bus information, student counts, daily miles, and expenditures to supporting documentation. Additionally, the training modules indicate the Treasurer and Superintendent should use the available audit reports that indicate changes and flag discrepancies to identify areas of concern.

Documentation of Accounting Policies and Procedures (GFOA, 2002 and 2007) recommends government agencies develop formal documentation of accounting policies and procedures. A well-designed and properly maintained system for documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff. The documentation of accounting policies and procedures should be readily available to all employees. It should delineate the authority and responsibility of all employees, especially the authority to authorize transactions and the responsibility for the safekeeping of assets and records. Likewise, the documentation of accounting policies and procedures should indicate which employees are to perform each procedure. Procedures should be described as they are actually intended to be performed and documentation of accounting policies and procedures should explain the design and purpose of control-related procedures to increase employee understanding of and support for controls.

Graham LSD had not conducted reconciliations of its T reports or examined its processes and was unaware of the reporting errors.

The lack of formal operating procedures and clearly delineated staff responsibilities weakens internal controls, especially in the event of employee turnover or absence. It also calls into question the reliability of the District's data since there is no documentation related to data collection or cost allocation. This increases the risks associated with misreporting and may result in a loss of State reimbursement revenue. If the District established a formal process for T reporting, it would be better able to detect errors in reporting in a timely manner and resolve data entry errors before reports are submitted to ODE.

R4.2 Implement a policy to collect reimbursement for non-routine bus trips.

Graham LSD should offset the cost of non-routine transportation by collecting fees for non-routine bus trips. The District should develop a fee schedule to obtain reimbursement for bus trips that are made outside its normal pupil transportation operations, such as trips for athletic events. The District should ensure that all costs, including salaries, insurance, and fuel are included in determining full reimbursement, as recommended by GFOA.

Graham LSD has a Board policy that states the District will provide district-owned buses for school related field trips and athletic events. According to the administrative guidelines, costs for non-routine bus trips shall be reimbursed to the District. However, as a practice, the District does not collect reimbursement for non-routine bus trips.

According to GFOA, a formal policy regarding charges and fees should be adopted. The policy should identify factors to consider when pricing goods and services and define the calculations to provide a basis for setting the charge or fee. Full cost calculations incorporate direct and indirect costs such as operations and maintenance, overhead, and charges for the use of capital facilities.

According to OAC 3301-83-16, approved non-routine uses of buses include the following:

- Trips that are extensions of the instructional program as determined by school;
- Trips for the transportation of enrolled pupils directly participating in school-sponsored events;
- Transporting pupils taking part in summer recreation programs when such programs are sponsored by a recreation commission and there is an agreement between the board of education, and the recreation commission;
- Trips for transportation of the aged when contracted with a municipal corporation or a public or nonprofit private agency or organization delivering services to the aged;
- Trips for transportation of pupils and/or adults, as approved by the board of education to and from events within the local community, which are school or local community sponsored. Such events shall be open to the public;
- Emergency evacuation and/or emergency evacuation drills when such emergencies are declared by state or local directors of emergency disaster services;
- A civil emergency, as declared by the governor;
- Transporting school and/or school bus owner employees engaged in approved employee improvement programs; and
- Transportation coordination, to participate with local human services providers, in transporting welfare reform participants and those participating in temporary assistance programs.

The District has chosen not to exercise its policy for reimbursement of non-routine busing costs. In some cases, the funds supporting the associated student activities might not be able to pay the additional costs for transportation. Therefore, the District chooses to subsidize these activities.

Non-routine busing for school related activities can be costly to the District. If the District does

not require reimbursement, it is responsible for any transportation costs that exceed required pupil transportation. In its current financial condition, this is an expenditure that Graham LSD should seek to reduce.

R4.3 Develop and implement a formal fleet maintenance and replacement plan.

Graham LSD should develop and implement a formal fleet maintenance and replacement plan. The District should not rely solely on the vehicle service performed by an outsourced provider. It should have a policy that defines an acceptable fleet maintenance schedule to ensure its provider is adhering to fleet maintenance standards. The District should also incorporate a bus replacement schedule into its formal, long-range plans to anticipate future bus replacement costs. The plan should be based on an analysis of the costs to maintain its buses. Lastly, the fleet maintenance and replacement plan should be linked to the District's financial forecast and budget to ensure adequate funding for maintaining and replacing the school bus fleet.

The District operates 31 buses in its fleet, including 7 spare buses. On average, the buses are approximately 11 years old and have over 200,000 miles. The District purchased 2 buses in 2009 and 1 bus in 2010. Graham LSD does not have a formal fleet maintenance plan or a bus replacement plan that links to its budget. The District's third-party mechanic invoices the District on a per bus basis showing the type of work performed. The mechanic also schedules and tracks preventive maintenance, such as oil changes and inspections every 3,000 miles and 6,000 miles. He keeps the maintenance schedule and informs the District when buses need maintenance, at which time the drivers are informed and make the appointments to bring the bus to the mechanic. Annually, the District's buses are inspected by the Ohio State Highway Patrol.

According to OAC 3301-83-14, each school transportation vehicle owner shall maintain the following records for the management and reporting of the pupil transportation program:

- Maintenance and repair;
- Records to document that reported mechanical deficiencies discovered during inspections (by Ohio State Highway Patrol) were corrected;
- Maintenance and repair record for each school transportation vehicle;
- Documented proof of pre-trip inspection for each school transportation vehicle must be kept on file for no less than twelve months; and
- Accounting system for fuel consumption and costs for routine and non-routine use of school buses and annual operation costs by vehicle and by fleet as prescribed by the Ohio Department of Education for T-2, if applicable.

Additionally, the American Public Works Association's *Public Works Management Manual* (APWA, Fourth Edition), states effective equipment management requires that repairs be made before equipment fails. This involves taking a preventive maintenance approach to provide for systematic, periodic servicing of equipment to facilitate operations with a minimum of downtime. Well planned preventive maintenance programs will result in a dependable fleet and extended equipment life with lower operation, maintenance, and repair costs. Planning and scheduling maintenance activities requires providing the right maintenance at the right time at

the lowest overall cost. The preventive maintenance program (PM) should include the following steps.

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

Lastly, the National Association of State Directors for Pupil Transportation Services (NASDPTS) believes the timely replacement of school buses must be a planned process. Establishing school bus replacement policies is an important activity since it directly impacts the timeliness of introducing the latest safety, efficiency and emissions improvements into the fleet. The elimination of school buses that do not meet the latest standards or requirements must be planned for within a realistic number of years. Policy makers must realize that school buses will not last forever, regardless of how they are equipped when purchased or maintained during their lives.

Available funding is likely the single most important consideration in determining when school buses are replaced. However, there appear to be at least two scenarios that should have an impact on decisions concerning school bus replacement. First, whenever there is a significant improvement in federal standards for the safety, fuel efficiency, or exhaust emission requirements of school buses, it appears reasonable to establish a policy with respect to timely replacement of the older buses with newer school buses. Second, whenever the operating and maintenance expenses for a school bus, or group of school buses, reaches a certain level, it appears that the better economic decision would be to purchase a new bus rather than continue to maintain the older school bus. According to the NASDPTS, mileage rather than the age of the buses could be considered based on a study by the State of South Carolina. South Carolina concluded that school buses should be replaced on a schedule of either 15 years of age or 250,000 miles of service.

Because the District uses a third-party provider for maintenance services, it has not established its own maintenance plan. Also, funding constraints have limited the District's ability to develop and adhere to a formal replacement plan because it rarely has surplus funds to dedicate to bus replacement.

Without a formal fleet maintenance and replacement plan, the District is unable to properly ensure its third-party provider is properly maintaining its bus fleet. Likewise, it is unable to plan and fund the replacement of school buses when necessary. A formal plan will give the District the guidance it needs to monitor the preventive maintenance schedule and anticipate funding requirements for future bus purchases.

District Response

The letter that follows is Graham LSD'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 District officials disagreed with information contained in the report and provided supporting documentation, the audit report was revised. The District's official response did not require any modifications to the performance audit report.



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June 13, 2011

Dave Yost, Auditor of State
88 East Broad Street, 5th Floor
Columbus, OH 43215

Dear Mr. Yost:

First, I would like to thank you for the information that was provided to the Graham Local School District from the performance audit conducted by your staff during the 2010-2011 school year. Their analysis confirmed our beliefs that the school district is operating very efficiently but in these challenging times they also confirmed the financial decisions that we have made and are making in the upcoming school years.

As part of the consultation we had with your staff, we have supplied responses to various areas of the report that have been included in the report. We appreciate the opportunity to focus on specific issues as well as give a general description of the processes and activities that go into the school district's operations.

I am sure we will continue to view this report in the future as a way to benchmark our progress. On behalf of the Graham Local School District Board of Education, thank you again for this valuable service.

Sincerely,

Robert L. Hoover
Treasurer

OUR MISSION

The mission of the Graham Local Schools, in concert with family and community, is to provide students with the opportunity to reach their maximum potential in order to function successfully in a changing world.