



Dave Yost • Auditor of State



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To the Residents and Board of the Harrison Hills City School District:

In accordance with Ohio Revised Code Section 3316.042, a performance audit was conducted in the Harrison Hills City School District, due to its fiscal caution status. The functional areas assessed during the audit were financial systems, human resources, facilities and transportation. These areas were selected because they are important components of District operations that support its educational mission, and because improvements in these areas can assist the District in improving its financial condition.

The performance audit contains recommendations which identify the potential for cost savings and efficiency improvements. The audit also provides an assessment of the District's financial situation and a framework for improvement. While the recommendations contained in the audit report are resources intended to assist in improving operational efficiency and effectiveness, the District is encouraged to assess overall operations and develop additional alternatives.

An executive summary has been prepared which includes background information; a financial outlook; the methodology and scope for the performance audit; noteworthy accomplishments; a summary of the key recommendations and financial implications; issues for further study; and the audit objectives. This report has been provided to the District and its contents discussed with the Board and administration. The District has been encouraged to use the results of the performance audit as a resource for further improving overall operations, service delivery, and financial stability.

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

Sincerely,

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

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Executive Summary

Background

Ohio Revised Code (ORC) § 3316.042 permits the Auditor of State (AOS) to conduct performance audits of any school district in a state of fiscal caution, watch or emergency and review any programs in which it believes that greater operational efficiency, effectiveness and accountability can be achieved. On May 20, 2010, the Harrison Hills City School District (HHCS D or District) was declared to be in a state of fiscal caution. As a result, AOS initiated a performance audit of HHCS D. Based on a review of HHCS D's information and discussions with the District, the following functional areas were included in the performance audit:

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

District Overview

HHCS D is located in Harrison County and encompasses 383 square miles. The legislative power of the District is vested in the Board of Education (the Board), consisting of five elected members. To carry out the daily operations, the Board of Education appoints a full-time Superintendent and full-time Treasurer. As the Chief Executive Officer, the Superintendent is given broad responsibility for managing the District. The Treasurer serves as the Chief Financial Officer and is responsible for establishing financial policies and procedures, financial forecasting and reporting, and managing payroll and accounts payable. The Superintendent has been employed at HHCS D for approximately three years and has served since January 2010 as Superintendent. The Treasurer has been employed by the District for 22 years and has served since August 1994 as Treasurer.

According to the Ohio Department of Education's (ODE) Local Report Card, the District provided educational services to an average daily membership 1,687 students in FY 2009-10. Students with disabilities comprised 18.4 percent of enrollment in FY 2009-10. ODE designated the District as "Effective" in FY 2009-10. Furthermore, the District's staffing levels were comprised of approximately 236 full-time equivalents (FTEs) in FY 2009-10, including 10 administrator FTEs, 126 professional education FTEs, and 100 classified/other FTEs. However, due to staffing reductions, the District's total staffing declined to 217 FTEs in FY 2010-11. The staffing reductions were largely driven by the Board's decision to close three of the six school

buildings in the District. HHCS D now operates three school buildings consisting of two elementary schools (pre-K to grade 6) and a junior/senior high school (grades 7 to 12).

In FY 2008-09, the District spent \$9,844 per pupil, which was 6.5 percent higher than the peer average (\$9,239). HHCS D's expenditures per pupil increased to \$10,587 in FY 2009-10, due primarily to a decline in enrollment. While the staffing reductions implemented by the District will help improve its financial standing, this performance audit provides recommendations that can further assist the District in reducing costs.

Financial Outlook

Table 1-4 in the **financial systems** section presents the framework for a financial recovery plan for HHCS D that demonstrates the impact of the performance audit recommendations on the District's financial condition. Based on **Table 1-4**, the District will have to continue making difficult decisions in order to improve its financial condition. Specifically, while **Table 1-4** shows that the District could experience positive fund balances when the impact of the performance audit recommendations is included, potential reductions to instructional staffing levels comprise an average of approximately 39 percent of the estimated savings per year. In addition, the outcomes in **Table 1-4** are contingent upon the attainment of the District's projections (see **1.2**), the timing of implementation of the performance audit recommendations, and the actual impact of those recommendations. For instance, the adoption of the next State biennium budget in 2011 will eliminate the current level of uncertainty related to State funding levels for education in FYs 2011-12 and 2012-13. This, in turn, could significantly impact the District's five-year forecast. See **1.9** in the financial systems section for additional discussion.

Prior to the adoption of final strategies for addressing the financial difficulties, HHCS D is encouraged to discuss all potential options with stakeholders to obtain their input and expectations. Adopting a strategic plan (**1.1**) and obtaining citizen feedback through forums and surveys (**1.7**) would ensure that HHCS D implements strategies to achieve financial recovery that are based on defined goals and objectives, and community input and desires.

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.

The overall objective of this performance audit is to assist the District in identifying strategies to reduce expenditures and, in turn, help improve its financial standing. The areas assessed in this performance audit include the following:

- **District Recovery Plan**, including an accounting of the effect of the Board's actions within the applicable assessments of this performance audit and a review of whether the financial impacts related to the actions have been reliably captured in the five-year forecast period;
- **Financial Systems**, including evaluations of forecasting, revenues and expenditures, financial reporting, strategic planning, budgeting and purchasing practices, and financial trends in the food service fund;
- **Human Resources**, including assessments of District-wide staffing levels, salaries and benefits, key contractual items, and sick leave use;
- **Facilities**, including analyses of staffing levels (custodial, maintenance, and grounds), facility utilization, enrollment trends, expenditures per square foot, and general energy management; and
- **Transportation**, including assessments of transportation costs and operational efficiency, routing practices, and key policies.

The performance audit was designed to develop recommendations that provide cost savings, revenue enhancements, and/or efficiency improvements. The ensuing recommendations comprise options that HHCS D can consider to help improve its financial condition and operations.

The performance audit of HHCS D was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the 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. Audit work was conducted between June 2010 and November 2010, and data was drawn primarily from FYs 2008-09, 2009-10 and 2010-11. To complete this report, the auditors conducted interviews with District personnel, and reviewed and assessed information from HHCS D, peer school districts, and other relevant sources. Peer school district data and other information used for comparison purposes were not tested for reliability.

AOS used four school districts as peers for benchmarking purposes: Barnesville EVSD (Belmont County), Buckeye LSD (Jefferson County), Edison LSD (Jefferson County), and Newcomerstown EVSD (Tuscarawas County). These districts were selected based upon demographic and operational data, and input from HHCS D. External organizations and sources were also used to provide comparative information and benchmarks. They include the Government Finance Officers Association (GFOA), the Ohio Department of Education (ODE),

the State Employment Relations Board (SERB), the American Schools and Universities (AS&U), and the National Center for Education Statistics (NCES).

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

The Auditor of State and staff express appreciation to HHCS D Board and employees for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

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

- **Transportation Efficiency and Cost-Effectiveness:** Overall, the District is transporting students in a cost-effective and efficient manner. More specifically, the District transported more riders per bus in FY 2008-09 and FY 2009-10 than the peer average in FY 2008-09. This is in spite of the District's being much less densely populated than the peers (see **Table 4-1** for detailed information). In addition, the District's transportation costs per rider were 20.4 percent lower than the peer average, which is primarily due to transporting more riders per active bus. Likewise, HHCS D's cost per routine mile and per active bus were 44.2 and 9.8 percent lower than the respective peer averages in FY 2008-09. The lower cost ratios equate to the District spending approximately \$336,000 less on a per rider basis, \$1.042 million less on a per routine mile basis, or \$143,000 less on a per active bus basis. The District's cost per rider and per mile ratios declined in FY 2009-10. Furthermore, ODE defines districts with ridership ratios above 1.0 as efficient relative to other school districts. ODE reported HHCS D's ridership ratios at 1.41 in FY 2007-08, 1.61 in FY 2008-09 and 1.80 in FY 2009-10. The District's high level of efficiency is due, in part, to the use of automated routing software, which aids in the identification of cluster stops and routing efficiency. The routing software helped the District identify routing changes following the closure of three schools through its capability to run various route scenarios.

The building closures and subsequent route adjustments resulted in eliminating five bus driver positions and correspondingly, five active buses.

- **Facility Costs:** Table 3-2 shows that HHCS D's total facility expenditures per square foot in FYs 2008-09 and 2009-10 were below the AS&U national median and peer average. Furthermore, the District's total expenditures decreased by 2.2 percent in FY 2009-10. The District's expenditures per square foot were lower than the peer average in each category and exceeded the AS&U national median in only the purchased services category.

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. In addition to the recommendations, the sections of the report note assessments conducted in the performance audit that did not warrant recommendations, where applicable.

1. Financial Systems

- Expand its forecasting policy and develop related formal procedures, review projections and assumptions, and ensure active review by the Board.
- Negotiate mandatory direct deposit and eliminate written pay stubs for all employees.
- Reduce excess funding in the insurance pool.
- Explore recommendations in this performance audit and other actions to improve financial standing.

2. Human Resources

- Review instructional staffing levels.
- Reduce health insurance costs.
- Require all staff to contribute to dental insurance.

- Require employees to pay their portion of retirement and Medicare costs.

3. Facilities

- Eliminating 1.0 custodial FTE and reallocate 1.0 custodial FTE.
- Develop a preventive maintenance program.
- Develop long-range facility master and capital improvement plans, and enrollment projections.

4. Transportation

- Seek opportunities to reduce transportation expenditures through partnerships, parent/guardian contracts, and smaller vehicles where applicable.

Issues for Further Study

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

- **Route Times:** AOS reviewed a sample of route sheets and noted that the route times for three buses were approximately 1.5 hours long. The key contributing factor is the size of the District, which spans 383 square miles. Nevertheless, the District should further evaluate route times to determine potential strategies for minimizing the length of time students spend riding while ensuring an efficient and cost-effective transportation program.
- **Food Service:** In FY 2007-08 and FY 2008-09, the Food Service Fund received advances from the General Fund, due to negative cash flow from operations and to avoid negative cash balances in the Food Service Fund. While the Food Service Fund had a positive cash flow from operations of approximately \$30,000 in FY 2009-10, it received an advance from the General Fund to avoid a negative cash balance because of past structural deficits. The District projects repayment of this advance in FY 2010-11 (see **1.4**). Since the District reduced food service personnel for FY 2010-11, the positive cash flow could further increase by approximately \$49,000.

For FY 2010-11, the District established the fee for paid lunches at \$2.00 for students in preschool to grade six, \$2.25 for students in grades seven to twelve, \$0.40 for students

qualifying for reduced price lunches, and \$2.75 for adults. The District also charges \$0.25 for milk when the milk is not purchased with a meal. By comparison, the Federal reimbursement schedule per meal is \$2.72 for free lunches, \$2.32 for reduced lunches, and \$0.26 for paid lunches. By deducting the \$0.26 reimbursement for paid lunches from the \$2.72 reimbursement for free lunches, the Federal reimbursement appears to infer a rate of \$2.46 for paying lunches. Although the District's lunch prices of \$2.00 and \$2.25 are lower than the net Federal reimbursement rate of \$2.46, the positive cash flow in FY 2009-10 indicates that the District's lunch prices appear adequate and justified to cover operating expenses. As previously mentioned, the positive cash flow should further increase in FY 2010-11 because of the reductions in food service personnel. On the other hand, the District is not accounting for all related costs in the Food Service Fund and may not be adequately funding other food service related items. Specifically, according to the Food Service Supervisor and the Treasurer, the District does not include utilities and overhead in the expenses of the Food Service Fund. In addition, there are no established reserves for food service equipment replacement. As a part of its operating expenditures for food services, the District spent approximately \$2,800 in FY 2007-08, \$4,500 in FY 2008-09 and \$10,000 in FY 2009-10 on capital items. Likewise, the District lacks a formal strategic plan for food service operations.

The District has chosen to account for the food service function in a Business Type Activity Fund. This indicates the desire to maintain self-sufficiency in the Food Service Fund and therefore, receive no subsidy from the General Fund. Based on the aforementioned issues, the District should develop a formal strategic plan for food services and further review the following when doing so:

- Can the Food Service Fund further reduce costs while meeting nutritional needs?
- Should the Food Service Fund establish a reserve for capital replacement?
- Should the Food Service Fund reimburse the General Fund for utilities and overhead related to food service operations?
- After addressing the aforementioned items and reviewing requirements that can impact pricing, is there a need for the District to adjust lunch prices?

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
1.5 Negotiate mandatory direct deposit and eliminate written pay stubs for all employees.	\$10,400
1.8 Reduce excess funding in the insurance pool.	\$430,000
2.1 Review instructional staffing levels.	\$785,000
2.2 Reduce health insurance costs.	\$742,500
2.3 Require all staff to contribute to dental insurance.	\$8,700
2.4 Require employees to pay their portion of retirement and Medicare costs.	\$86,500
3.1 Eliminate 1.0 custodial FTE and reallocate 1.0 custodial FTE.	\$40,000
Total Cost Savings from Performance Audit Recommendations:	\$2,103,100

Audit Objectives

The following detailed audit objectives were used to conduct the performance audit of the Harrison Hills City School District.

Financial Systems:

- What has been HHCS D's financial history?
- Does the five-year financial forecast reasonably project the future financial position of the District and does it accurately capture the financial impact of the Board-approved recovery plan?
- Does the District maintain an effective process for preparing financial forecasts?
- Does the District perform strategic planning functions?
- How do the District's revenues and expenditures per student compare with the peers?
- Are the District's financial reporting, budgetary, and purchasing processes consistent with recommended or leading practices?
- Do trends and recent actions (i.e., building closures) indicate that the Food Service Fund will achieve long-term financial self-sufficiency?

Human Resources:

- What is the effect of the Board-approved recovery plan?
- Is the District's current allocation of personnel efficient?
- Are District salaries in line with the peer averages?
- How does the structure and costs of the District's insurance benefits compare with industry benchmarks?
- Are the District's negotiated agreements in line with peers and/or leading or recommended practices?
- Is the workers' compensation program cost-effective?
- Is the District's use of sick leave comparable with industry benchmarks?

Facilities:

- What is the effect of the Board-approved recovery plan?
- Are the District's custodial, maintenance and groundskeeping staffing levels, and expenditures per square foot comparable to industry benchmarks and/or peers?
- What are the District's anticipated building utilization rates when accounting for the recent closures?
- What are the trends in the District's enrollment?

- Are the District's overall energy management practices comparable to leading or recommended practices?

Transportation:

- What is the effect of the Board-approved recovery plan?
- Do the District's transportation policies meet leading practices and ensure efficient operations?
- Are the District's transportation-related financial indicators in line with peer averages and/or industry benchmarks?
- Is the District providing regular needs and special needs transportation in a cost-effective and efficient manner?

Financial Systems

Background

This section of the performance audit focuses on financial systems within the Harrison Hills City School District (HHCS D or the District). HHCS D's operations were evaluated against information from relevant sources, such as the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), Ohio Revised Code (ORC), and four peer districts (peer average).¹

As a part of the performance audit, food service operations were reviewed. These reviews resulted in issues for further study (see the **executive summary**).

Financial Condition

Ohio Revised Code (ORC) 3316.03 allows the Auditor of State (AOS) to place a school district in fiscal watch or fiscal emergency if certain conditions are met. ORC § 3316.031 also authorizes the Ohio Department of Education (ODE) to place a school district in fiscal caution if it identifies fiscal practices or budgetary conditions that if left uncorrected, could lead to fiscal watch or emergency conditions. If fiscal caution is declared, the school board has 60 days to provide a written proposal to ODE that outlines a plan to correct the practices or conditions that led to the declaration. HHCS D was placed in fiscal caution on May 20, 2010. On June 29, 2010, HHCS D's Board of Education (the Board) voted to close three school buildings for FY 2010-11. Subsequently, the District submitted a fiscal caution proposal that included a revised forecast. Furthermore, according to HHCS D, the District began addressing financial concerns in January 2010.

Table 1-1 presents the District's five-year forecast submitted in October 2010.

¹ See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

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

	Actual 2007-08	Actual 2008-09	Actual 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Real Estate Property Tax	\$3,742	\$3,824	\$3,859	\$4,261	\$3,968	\$4,064	\$4,067	\$4,091
Tangible Property Tax	364	140	54	25,000	0	0	0	0
Unrestricted Grants-in-Aid	10,234	10,263	10,048	9,759	9,286	9,286	9,286	9,286
Restricted Grants-in-Aid	730	777	150	140	139	139	139	139
Restricted Federal	0	0	674	1,090	0	0	0	0
Property Tax Allocation	721	832	1,456	1,180	1,169	1,169	896	752
Other Revenues	469	446	349	328	298	298	298	298
Total Operating Revenues	\$16,260	\$16,282	\$16,590	\$16,784	\$14,860	\$14,956	\$14,686	\$14,565
Salaries & Wages	\$8,404	\$8,362	\$8,049	\$7,514	\$7,175	\$7,267	\$7,314	\$7,510
Fringe Benefits	4,383	4,162	4,292	4,220	4,313	4,592	4,633	4,972
Purchased Services	3,204	3,263	3,178	3,813	3,821	3,880	3,972	4,094
Supplies, Materials & Textbooks	751	914	834	973	796	806	790	793
Capital Outlay	335	672	176	690	116	59	53	53
Other Expenditures	412	328	320	355	350	358	364	367
Total Operating Expenditures	\$17,488	\$17,700	\$16,849	\$17,566	\$16,572	\$16,963	\$17,128	\$17,789
Net Transfers	1	0	2	0	0	0	0	0
Advances-In	251	330	456	699	400	400	400	400
Advances-Out	330	533	699	400	400	400	400	400
Net Financing	(\$78)	(\$203)	(\$241)	\$299	\$0	\$0	\$0	\$0
Result of Operations	(\$1,306)	(\$1,621)	(\$501)	(\$483)	(\$1,713)	(\$2,006)	(\$2,441)	(\$3,224)
Beginning Cash Balance	5,656	4,350	2,729	2,228	1,745	33	(1,973)	(4,415)
Ending Cash Balance	\$4,350	\$2,729	\$2,228	\$1,745	\$33	(\$1,973)	(\$4,414)	(\$7,638)
Encumbrances	656	357	618	270	187	183	182	185
Reservations	1,947	1,485	1,120	464	339	307	298	315
Ending Fund Balance	\$1,747	\$887	\$489	\$1,012	(\$493)	(\$2,463)	(\$4,895)	(\$8,139)

Source: HHCSO October five-year forecast

Note: Totals may vary due to rounding.

Table 1-1 shows that unrestricted grants-in-aid (State funding) represent the highest revenue source, comprising 60.1 percent of total operating revenues in FY 2009-10. The real estate property taxes represent the second highest revenue source for HHCSO. Specifically, according

to the Harrison County Auditor, the District levies 34.75 mills for the General Fund that are continuing in nature. However, due to the impact of inflation, the effective tax rate for these levies has declined to 20.0 mills for residential and agricultural properties and 22.78 for commercial and industrial properties. In addition, the District collects a 3.0 mill permanent improvement levy. Salaries and benefits comprise the majority of operating expenditures, accounting for 73.2 percent of total operating expenditures in FY 2009-10.

As presented in **Table 1-1**, the Treasurer projects that even with reductions accompanying the building closures, the District will continue encountering operating deficits as reflected in the result of operations line-item. While **Table 1-1** shows that the Treasurer forecasts the District to maintain a positive fund balance of approximately \$1.0 million in FY 2010-11, this will continue to diminish in subsequent years. By FY 2012-13, the District anticipates exhausting its cash balance, culminating in a negative ending fund balance of approximately \$8.1 million in FY 2014-15. See **1.2** for additional discussion of the District’s forecast and related assumptions.

Revenue and Expenditure Comparisons

Table 1-2 compares the District’s revenues by source and expenditures by object for the General Fund and Special Revenue Funds to the peer average on a per student basis for FY 2008-09.

Table 1-2: Revenues by Source, Expenditures by Object - Per Pupil

	HHCS FY 2008-09	HHCS FY 2009-10	Peer Average FY 2008-09	% Difference FY 2008-09
Local	\$2,369	\$2,452	\$3,151	(24.8%)
State	\$6,633	\$6,821	\$5,427	22.2%
Federal	\$929	\$1,442	\$954	(2.6%)
Total Revenues	\$9,931	\$10,715	\$9,532	4.2%
Wages	\$5,258	\$5,494	\$5,067	3.8%
Benefits	\$2,679	\$3,030	\$2,332	14.9%
Purchased Services	\$664	\$780	\$801	(17.1%)
Supplies and Materials	\$809	\$734	\$619	30.6%
Capital Outlay	\$89	\$135	\$83	7.8%
Capital Replacement	\$115	\$184	\$103	12.0%
Other Objects	\$229	\$229	\$234	(1.8%)
Total Expenditures	\$9,844	\$10,587	\$9,239	6.5%

Source: HHCS and peer Expenditure Flow Model reports

Table 1-2 shows that HHCS's revenues per pupil are higher than the peer average. The District’s lower local revenues per pupil are offset by the higher State revenues per pupil. In addition, Federal revenues per pupil increased by 55.2 percent in FY 2009-10. The majority of this increase is likely due to federal grants-in-aid (stimulus funding), which will be eliminated after FY 2010-11. **Table 1-2** also shows that HHCS’s total expenditures per pupil were 6.5

percent higher than the peer average and higher in every category, except purchased services and other objects. Further, **Table 1-2** shows that total expenditures per pupil increased by 7.5 percent in FY 2009-10, which is mainly due to a decline in enrollment. Specifically, while expenditures increased by 1.7 percent in FY 2009-10, enrollment declined by 5.4 percent.

Staffing, salary and benefit levels contribute to the higher wages and benefits. See the other sections for further assessment. Additionally, the higher salaries, benefits, and supplies and materials expenditures are due, in part, to inefficiencies related to operating with excess capacity at the school buildings. However, the District closed three of the six school buildings and reduced staffing levels, taking effect in FY 2010-11 (see the **human resources** and **facilities** sections).

Table 1-3 shows the expenditures posted to various Uniform School Accounting System (USAS) function codes for HHCS D and the peer districts on a per pupil basis in FY 2008-09.

Table 1-3: Expenditures by Function

	HHCS D FY 2008-09	HHCS D FY 2009-10	Peer Average FY 2008-09	% Difference FY 2008-09
Administrative	\$1,158	\$1,309	\$1,193	(3.0%)
Operations	\$2,163	\$2,237	\$2,194	(1.4%)
Staff Support	\$166	\$236	\$210	(21.0%)
Pupil Support	\$859	\$945	\$723	18.8%
Instruction	\$5,498	\$5,859	\$4,918	11.8%
Total	\$9,844	\$10,587	\$9,239	6.5%

Source: HHCS D and peer Expenditure Flow Model reports

Table 1-3 shows that HHCS D's higher expenditures per pupil are due to instruction and pupil support services costs. The higher instruction expenditures are due primarily to regular and special education costs, while the higher pupil support costs are mainly due to guidance, counseling, nurse, health, speech pathology and audiology, other support services, classroom support, and library services. For regular and special instruction, and pupil support services, salaries and benefits were the primary cost drivers. See the **human resources** section for a District-wide assessment of staffing, salaries and benefits, as well as for the effect of HHCS D's staffing reductions for FY 2010-11 (see **Table 2-1**). **Table 1-3** also shows that expenditures per pupil increased in each category in FY 2009-10, thereby exceeding the respective peer averages in FY 2008-09. This is due primarily to the aforementioned enrollment decline, although administrative and staff support expenditures increased by 6.9 and 34.6 percent, respectively.

Recommendations

1.1 Develop a strategic plan.

The District should develop a comprehensive multi-year strategic plan that outlines its long-term vision. The plan should include detailed goals, objectives, timeframes, performance measures, and applicable cost estimates. Once developed, HHCS D should link the strategic plan to the budget, five-year forecast, Comprehensive Continuous Improvement Plan (CCIP), and other related plans (e.g., see facilities for master and capital plans). Using a strategic planning approach would shift the focus of budgetary decisions from inputs (e.g., salaries and the cost of purchased goods and services) to outputs and outcomes, and ultimately to the accomplishment of important goals and objectives.

The District has not developed a multi-year strategic plan incorporating key elements of the District operations, such as facilities, transportation, food service, and financial operations. However, the District has developed plans to address its fiscal caution designation and annual CCIPs.

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

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

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

Developing and implementing a strategic plan would help the District provide direction and focus, improve communication internally and with stakeholders, engage staff to work on improving operations, and align the budget and forecast with goals and outcomes.

1.2 Expand its forecasting policy and develop related formal procedures, review projections and assumptions, and ensure active review by the Board.

The Board should expand its forecasting policy to outline the process for developing the financial forecast, including the participation of other District administrators, general procedures and the types of supporting materials. Subsequently, the District should develop formal procedures that align with the policies, including practices that would help to prevent, detect, and correct errors and omissions before the forecast is presented to the Board. Furthermore, the Board should ensure that it takes an active approach in reviewing and questioning the forecast and related assumptions. Lastly, the District should review the salary, benefit, purchased service and transfer/advance (see 1.4) projections to ensure the figures and related assumptions are reasonable and justifiable.

While HHCS D has a policy that requires the development of financial forecasts, the policy does not outline the process for preparing the financial forecast, the frequency of the updates, the roles of other administrators, or the level of note disclosures and supporting materials to be used in developing the forecast. Likewise, the District lacks formal procedures that govern the forecasting process. In practice, the District primarily relies on the Treasurer to develop the forecast and to determine the appropriate level of note disclosures and supporting documentation. Furthermore, the forecast is not linked to a comprehensive strategic plan (see 1.1). Certain administrators are consulted and there is some interaction during monthly meetings to discuss the appropriateness of budgets; however, this is primarily done after the forecast has already been developed. This process and the lack of comprehensive policies potentially limits the usefulness of the forecast as a management tool and increases the risk for insufficient input by the Board.

In preparing the five-year forecast, the Treasurer uses spreadsheets that contain links to other worksheets which support the projected figures and contain additional detail of the forecast methodology. A review of these links found that they do support the projected figures.² In addition, the assumptions used for projecting the significant revenue components of the five-year forecast and the related figures appear to be generally reasonable, based on the following:

² These reviews were done on the District's August 2010 five-year forecast. Since the October 2010 forecast was subsequently available and the review of the August 2010 forecast did not reveal errors, it is assumed that the figures in the October 2010 are materially reliable. In addition, significant changes in projections from the August to October forecasts were reviewed for overall reasonableness.

- Real estate property taxes are projected to increase by an annual average of 1.5 percent from FY 2011-12 to FY 2014-15. From FY 2007-08 to FY 2008-09, real estate property taxes increased by 1.5 percent.
- The unrestricted grants-in-aid and restricted federal grants-in-aid projections in FY 2010-11 are similar to the amounts reported by ODE. These federal funds will be eliminated going forward, which supports showing no federal grants-in-aid after FY 2010-11. The Treasurer assumes unrestricted grants-in-aid to decline by approximately five percent in FY 2011-12 due to the status of the State budget, and held constant thereafter. Because of the uncertainty related to State funding levels, this assumption appears reasonable.

In regards to significant expenditures, the worksheets used by the Treasurer to develop the forecast show that projections for salaries and benefits in FY 2010-11 sufficiently account for the authorized staffing reductions. Additionally, the District's staffing reductions result in a decline in full-time equivalents of 8.1 percent, which is close to the projected decline in salaries of 6.6 percent. While salaries and benefits for FY 2010-11 appear reasonable, a review of the forecast and assumptions revealed the following anomalies:

- The District projects salaries to decline an additional 4.5 percent in FY 2011-12. However, the assumptions do not clearly convey the rationale for this decline and state that "due to the projected deficit, the board of education will continue to review the staffing needs of the district." Additionally, the August 2010 worksheets show that the decline is primarily due to reductions in base wages. However, the August forecast projected salaries to decline 3.2 percent in FY 2011-12, lower than the reduction of 4.5 percent in the October forecast. According to the Treasurer, the forecasted decline in FY 2011-12 is due to realizing the full cost of the positions eliminated in FY 2010-11 and projecting two retirements with one not being replaced.
- The District projects salaries to increase by 1.3 percent in FY 2012-13, 0.6 percent in FY 2013-14, and 2.7 percent in FY 2014-15. While the assumptions support the increases in FYs 2012-13 and 2014-15, they support a higher increase in FY 2013-14. Specifically, the assumptions indicate that salaries will increase as a result of negotiations by 1.5 percent in FY 2013-14. The assumptions also note that salaries include extended time, shift differential, overtime, substitute costs and leave incentives.
- The District projects benefits to increase by 6.5 percent in FY 2012-13, 0.9 percent in FY 2013-14, and 7.3 percent in FY 2014-15. The 0.9 percent increase appears low based on the increases in the other two years and the salary projections, and because the assumptions indicate that health insurance is projected to increase by 10 percent.
- Despite the relatively consistent trend in purchased service expenditures from FY 2007-08 to FY 2009-10, the District projects purchased services to increase by 20 percent in FY 2010-11. According to the assumptions, this is due to using the permanent

appropriations for FY 2010-11 and an increase in open enrollment. Thereafter, the District projects purchased services to increase each year, ranging from 0.2 to 3.1 percent annually.

According to the *Guide for Prospective Financial Information* (American Institute of Certified Public Accountants (AICPA), 2008), financial forecasts may be prepared as the output of a formal system. A formal system consists of a set of related policies, procedures, methods, and practices that are used to prepare the financial forecast, monitor attained results relative to the forecast, and prepare revisions to, or otherwise update, the forecast. Financial forecasts may also be prepared via a formal work program. If such a program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. This publication also includes numerous guidelines for preparing and reviewing financial forecasts, including the following:

- Key factors should be identified as a basis for assumptions. Assumptions used in preparing financial forecasts should be appropriate, reasonable, and well-supported and could include market surveys, general economic indicators, trends and patterns developed from the entity's operating history (historical trends), and internal data analysis.
- Financial forecasts should be prepared in good faith based on appropriate assumptions. The potential to mislead a third-party reader of financial forecasts is greater than that for historical financial statements. Accordingly, a forecast preparer should make a good faith effort to ensure that the forecast assumptions are neither unduly optimistic nor pessimistic.
- The preparation of financial forecasts ordinarily involves the use of large amounts of data and requires many calculations. This data may be processed without the benefit of the checks and balances inherent in a historical accounting system, which makes the preparation of financial forecasts particularly susceptible to clerical errors. Procedures should be established to facilitate the prevention, detection, and correction of such errors.
- The process used to develop financial forecasts should provide adequate documentation of the financial forecasts and the process used to develop them. Documentation involves recording the underlying assumptions and summarizing the supporting evidence for the assumptions. As a result of well supported documentation, users can trace forecasted results back to the support for the basic underlying assumptions.
- Financial forecasts should be consistent with the expected economic effects of anticipated strategies, programs, and actions of the agency, including those being planned in response to expected future conditions.

- Financial forecasts are important statements of the future financial results of an entity. The ultimate responsibility for financial forecasts rests with the responsible party at the highest level of authority. Accordingly, the process used to prepare financial forecasts should include adequate review and approval at the appropriate levels of authority. Additional reviews at intermediate levels of authority enable the financial forecast to be evaluated from several vantage points by those who will be responsible for the subsequent operations.

Expanding on the current policy and developing related procedures which reflect the abovementioned items will help ensure that forecasts can be used as a reliable management tool and, in turn, help HHCS D develop appropriate strategies for addressing anticipated financial difficulties before they actually occur. For example, procedures would help ensure consistency in approaches and detection of errors. Additionally, reviewing the aforementioned anomalies would ensure that the projections are reasonable and justifiable.

1.3 Adopt financial policies and procedures.

HHCS D should develop policies that address budget stabilization, fees and charges, and contingency planning. Subsequently, the District should communicate these policies to staff and the public.

HHCS D lacks the following policies recommended by GFOA:

- Budget Stabilization Funds - A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.
- Fees and Charges - A jurisdiction should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.
- Contingency Planning - A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events. When unexpected events occur, having a policy that can be applied, or at least serve as a starting point for financial decisions and actions, improves the ability of a government to take timely action and aids in the overall management of such situations.

Developing the comprehensive policies recommended by GFOA could help HHCS D better manage its limited resources, help ensure consistency in financial practices, can be used as a tool for financial decision-making, and can improve the ability to take timely action.

1.4 Address deficits in the Athletic Fund and correct use of advances.

HHCS D should address the recurring deficit in the Athletic Fund by finding ways to make the Fund self-sufficient. However, if the District is unsuccessful in doing so, it should transfer monies from the General Fund to the Athletic Fund. When future revenue is not anticipated for a fund, recurring operating fund deficits should be supported by transfers, rather than advances. Furthermore, the District should review the projected advances and transfers to determine whether any adjustments are necessary to accurately reflect these line-items.

Despite the need for continual financial support, the District has been using temporary accounting measures to account for General Fund subsidies in two funds. Specifically, the Athletic Fund experienced deficits of \$51,355 in FY 2007-08, \$54,931 in FY 2008-09, and \$62,795 in FY 2009-10, and received advances from the General Fund to cover these amounts. The Food Service Fund also incurred deficits in FYs 2007-08 and 2008-09, but reduced staffing levels that contributed to an operating surplus in FY 2009-10 as revenue exceeded expenditures. Reducing staffing levels even further in FY 2010-11 should help improve the long-term self-sufficiency of the Food Service Fund (see **issues for further study in the executive summary**). Nevertheless, the Athletic and Food Service Funds are obligated to repay \$62,795 and \$247,412 respectively, to the General Fund to account for the advances in FY 2009-10. Additionally, while the Food Service Fund had a positive cash flow from operations in FY 2009-10, it is still maintaining a negative fund balance because of prior structural deficits.

The District's five-year forecast shows that the advances-in for FY 2010-11 match the advances-out for FY 2009-10. As a result, the District has accounted for the advances-out to the Athletic and Food Service Funds in FY 2009-10. The annual projections thereafter match as well. However, the District's five-year forecast shows that the advances-in for FY 2009-10 are lower than the advances-out for FY 2008-09 by \$76,591. Conversely, the May 2010 forecast showed that the advances-in for FY 2007-08 were higher than the advances-out in FY 2006-07 by \$62,171. Lastly, the projected transfers only reflect set-asides for supplies and materials.

The *Uniform School Accounting System User Manual* (AOS, 2009) defines an advance as a temporary accounting procedure "in anticipation of future revenue with which to repay the fund making the advance." The accounting procedure is designed to assist a district by permitting temporary use of funds when the timing of revenue funds from a grant or special revenue source is delayed. Borrowing facilitates the payment on expenditures for that fund that must be settled before the revenue will be available. On the other hand, a "transfer" is defined as a permanent transaction from one fund to another.

Unlike the Food Service Fund, the District has not developed a plan to eliminate the deficit in the Athletic Fund and lacks a policy that defines the cost recovery of the Athletic Fund relative to fees and charges (see **1.3**). As a result, the Athletic Fund will likely continue to incur deficits

and, in turn, require continual support from the General Fund. Furthermore, using advances to move the deficit burden between funds is not consistent with the intent of the accounting mechanism, only temporarily helps the Athletic Fund, and masks that the Fund is not self-sufficient

1.5 Negotiate mandatory direct deposit and eliminate written pay stubs for all employees.

HHCS D should negotiate to require mandatory direct deposit for all employees, regardless of hire date. Furthermore, the District should discontinue the practice of issuing paper pay stubs and instead make the information available on-line. Taking these steps would benefit the District through reduced costs and improved efficiency in the Treasurer’s Office, as well as benefit employees through instant access to funds and improved access to historical pay stub information.

HHCS D has partially implemented the use of direct deposit and prints pay stubs for all employees. Since 2006, the District has informally required direct deposit for new employees. Employees who started before 2006 can still receive paper checks. While approximately two-thirds of District staff currently use direct deposit, both the certificated and the classified collective bargaining agreements have provisions that allow staff to opt out of participation. In addition, the District has implemented a software program that allows all employees to have online access to copies of their pay stub along with leave balances and other employment information. Although the Treasurer stated that having all employees receive electronic pay stubs is a goal for improving efficiency, the District continues to print paper pay stubs, even for those employees using direct deposit. The negotiated agreements do not require the use of paper pay stubs.³ During the school year, the pay stubs are sent to each building for distribution, but are mailed to employees during the summer months.

According to *Costs and Benefits of Direct Deposit of Salary Checks* (National Federation of Independent Businesses (NFIB), 2004), direct deposit of paychecks provides many benefits to both employers and employees. Benefits to employers include:

- Reduced risk of check fraud and lost or stolen checks;
- Greater control over payroll and payroll expenses;
- Timely payment of salary checks, even when employees are away from the office;
- Reduced time spent on bookkeeping because of immediate payments into employee accounts (no lost checks, delayed check cashing, etc.); and
- Immediate availability to online transaction reports.

³The teachers’ collective bargaining agreement mandates mailing of summer paychecks directly to staff unless direct deposit is used.

Benefits to employees include:

- Reduced time required for checks to clear;
- Reduced chance of losing checks or having checks stolen;
- No need to spend time visiting a bank or ATM to deposit paychecks;
- Payments can be divided automatically among designated employee accounts; and
- No cost to employees for direct deposit.

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

A 2005 report by the U.S. Treasury Department's Office of the Comptroller of the Currency recognized that the "the typical cost to an employer of a direct deposit transaction is 20 cents" and "the cost of a paper check is estimated at \$1 to \$2." Further, implementing electronic pay stubs would reduce costs related to paper, envelopes, and labor necessary to produce hard copy stubs, which the National Automated Clearing House Association estimates to be about \$1.20 per statement.

Financial Implication: If the District were to mandate direct deposit for the employees not participating and implement electronic pay stubs for all employees, it would save approximately \$10,400 annually. This assumes \$1.50 cost per paper check, which is the midpoint of the abovementioned range.

1.6 Establish an audit committee.

HHCS D should establish an audit committee or its equivalent that has the appropriate knowledge to provide independent review and oversight of the District's financial operations. In establishing the audit committee, the District should consider including a select number of external stakeholders as members and formally assign duties to the committee. Examples of duties can include reviewing the results of the financial audit, developing strategies to address audit citations, and reviewing assumptions in the five-year financial forecast.

HHCS D has not established an audit committee to oversee the results of the annual financial audit. However, the Treasurer discusses the audit results with the Board.

Recommended Budgeting Practices (GFOA, 2006) indicates that every government should establish an audit committee and that "...ideally, the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing. The audit committee should also have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. This expert should possess an understanding of generally accepted accounting principles, experience in preparing or auditing financial statements, experience in applying such principles in connection with the accounting for estimates, accruals, and reserves, experience with internal accounting controls, and an understanding of audit committee functions." GFOA goes on to indicate that the audit committee should provide an independent review and oversight of a government's financial reporting process, internal controls and independent auditors.

Creating an audit committee would provide an additional level of oversight for the District's financial activities, such as for the annual financial audits, forecasting activities (see **1.2**), and the development of financial policies and procedures (see **1.3**).

1.7 Expand financial reporting and interaction with the community.

HHCS D should consider developing a popular annual financial report (PAFR) or another similar document (e.g., citizen-centric based report). The availability of the financial report should be announced through appropriate media outlets, such as the local newspaper. In addition, the report should be reviewed by Board members and administrators, with copies made available to the public upon request. Further, HHCS D should post this report and other pertinent financial information on its website. Lastly, the District should consider conducting periodic community forums and citizen surveys. Taking these measures can help increase community interest and participation in the District's operations.

According to the District, it publishes an annual financial notice as required by Ohio Revised Code. However, the District does not use other formal mechanisms to communicate financial information to stakeholders. Specifically, the District's website does not convey financial information and the District does not publish a PAFR or another similar document. Likewise, HHCS D does not hold regularly scheduled community forums to educate the citizens about its financial condition and general operations, nor does it conduct regular community surveys to gauge citizen satisfaction with its programs and services. The District indicated that it conducted a survey in the Spring of 2010. Nevertheless, the District relies on the annual audited financial statements and Board meetings for relaying financial information to the public.

Recommended Practices: Preparing Popular Reports (GFOA, 2001) encourages governments to supplement their annual financial reports with simpler, "popular" annual financial reports (PAFR) designed to assist those who need a less detailed overview of a government's financial activities. According to GFOA, the PAFR supplements the GAAP basis financial statements and

is used to describe a government entity's operations in a consolidated, aggregated or condensed format. The intent of a PAFR is to provide objective information to local citizens in a clear and concise manner, using charts and graphs to interpret financial data and to help identify trends.

The Association of Government Accountants (AGA) has developed the Citizen-Centric Government Reporting Initiative in an effort to promote citizen communication and address public opinion about reporting. Specifically, AGA reports that its survey in 2008 revealed a public perception of government failing to meet financial management reporting needs. According to AGA, the 2008 survey also showed that 89 percent of citizens indicated that they are entitled to transparent financial management information, while 57 percent indicated that governments are obligated to provide such information.

In regards to length and content, AGA's citizen-centric based reports should comprise four pages and include the following⁴:

- Information about the community (page 1)⁵, including strategic objectives and demographics;
- A performance report on key missions and services (page 2), including comparisons of nonfinancial outcomes to past years' performance, articulated targets, and peers;
- Cost and revenue data for major areas (page 3), which should be aligned with the non-financial outcomes and include trend comparisons whenever possible; and
- Future challenges and economic outlook (page 4), including information on key matters (e.g., tax cuts or increases and business openings/closings) and infrastructure items.

AGA further notes that the U.S. Departments of Interior and Defense; the U.S. Coast Guard; the states of Oregon, Nevada, South Carolina, Tennessee, and Washington; and various localities, such as Saco, ME, Tallahassee, FL, Portland, OR, and Blount County, TN, have produced citizen-centric based reports.

According to *Using Websites to Improve Access to Budget Documents and Financial Reports* (GFOA, 2003), a government effectively using their website to convey financial information can realize a number of benefits including increased public awareness, increased public usage of the information, and availability of information for use in public analysis. The Westerville City School District (Franklin County) has a detailed website that includes multiple years of key financial reports that pertain to district operations including detailed levy information, current

⁴ See AGA's website at www.agacgfm.org/citizen for more detailed information about the content and design of the citizen-centric based reports.

⁵ All data should be presented on a per capita basis.

and historical budget and forecast documents, property tax millage and valuation information, comprehensive and popular annual financial reports, past financial audit results, and expenditure per pupil comparisons to neighboring school districts.

During a performance audit of the Painesville Township Local School District⁶ (Lake County) released in March 2007, the Treasurer noted that the district held town hall style meetings where discussions took place regarding issues like school funding and the impact on the district, the use of the permanent improvement levy, capital improvement projects, and curriculum issues. Likewise, the South-Western City School District (Franklin County) approved and published a *Contract with the Community* in 2009 that outlines specific goals and objectives associated with a new levy proposal, and an intention to establish a system of quarterly reports and meetings with the community to discuss its fiscal, operational, and educational improvement initiatives. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) states that governments, to improve public participation, should identify citizen preferences and satisfaction levels through common methods such as focus groups and public meetings.

The performance audit of the Painesville Township Local School District also noted that the district administered surveys to solicit citizen feedback. A particular survey solicited feedback on various topics, including the level of satisfaction with educational services and communications, and the adequacy of facilities and equipment. *Public Participation in Planning, Budgeting, and Performance Management* (GFOA, 2009) states that governments should use in-person, mail, phone, or internet surveys to identify citizen preferences and satisfaction levels.

Publishing a PAFR or its equivalent would help educate and inform the public about the District's finances. By making financial information available on its website, the District would be using a relatively inexpensive method to inform stakeholders of its financial condition, and could potentially reduce the time and costs associated with public records requests. In addition, public forums and surveys could provide valuable feedback to the District while also informing citizens about the goals and achievements of the District, and HHCS D's overall financial condition.

1.8 Reduce excess funding in the insurance pool.

The District should reduce the excess funding in the Ohio Mid-Eastern Education Service Agency (OME-RESA) Health Care Consortium. Doing so would help improve the financial condition in the General Fund, while still maintaining an appropriate reserve as determined by an actuary.

HHCS D belongs to the OME-RESA Health Care Consortium (the consortium). According to

⁶ Painesville Township Local School District has since changed its name to Riverside Local School District.

the consortium's audited financial statements, membership rates for individual organizations are based on estimates of future costs. In addition, the consortium annually reviews the rates for individual members with an assessment of additional costs if a member has less than the required reserve, which is determined through a separate actuarial analysis. Conversely, a member may receive a waiver of one or two months of insurance premium costs if the consortium's actuary determines that the member has a sufficient reserve balance to meet the expected health care obligations. According to the consortium's actuary, the District's actual insurance costs have been less than the estimated costs for several years. As a result, at the end of FY 2009-10, the District's reserve balance exceeded the actuary requirement by \$1,406,020.

Financial Implication: Based on the District's established insurance costs for FY 2010-11, and assuming HHCS D takes two insurance holidays per year for the next three years and that claims costs remain relatively consistent, the District could reduce its projected health insurance expenditures by approximately \$430,000 per year. In order to account for potential changes in the actuarially determined reserve amount in the future, this would still leave an excess reserve amount of approximately \$116,000 at the end of the three years and is assumed to begin in FY 2011-12.

1.9 Explore recommendations in this performance audit and other actions to improve financial standing.

HHCS D should analyze and use Table 1-4 to evaluate the effect of the recommendations presented in this performance audit. The District should consider implementing the recommendations in this performance audit along with other appropriate actions to avoid projected operating deficits. For example, in addition to seeking opportunities to partner for transportation services, the District should consider the feasibility of expanding partnerships with other districts to share applicable services. Furthermore, the District should ensure the financial projections are reasonable (see 1.2 and 1.4), update Table 1-4 on an ongoing basis (e.g., quarterly) to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, HHCS D should regularly discuss options for reducing costs and increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits, such as through community forums (see 1.7).

Table 1-4 presents HHCS D's financial condition after considering the impact of the performance audit recommendations. Based on **Table 1-4**, the District will have to continue making difficult decisions in order to improve its financial condition. Specifically, while **Table 1-4** shows that the District could experience positive fund balances when the impact of the performance audit recommendations is included, potential reductions to instructional staffing levels comprise an average of approximately 39 percent of the estimated savings per year. Additionally, the forecast in **Table 1-4** will depend, in part, on the attainment of the District's projections. Therefore, reviewing the reasonableness of the projections (see **1.2** and **1.4**), monitoring the attainment of

the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. For instance, the adoption of the next State biennium budget in 2011 will eliminate the current level of uncertainty related to State funding levels for education in FYs 2011-12 and 2012-13. This, in turn, could significantly impact the District's five-year forecast. The projections will also depend upon timing related to implementing the performance audit recommendations and the actual impact of those recommendations. To be conservative, **Table 1-4** assumes the performance audit recommendations will be implemented beginning in FY 2011-12.

Table 1-4: Five-Year Forecast (in 000s)

	Actual 2007-08	Actual 2008-09	Actual 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Real Estate Property Tax	\$3,742	\$3,824	\$3,859	\$4,261	\$3,968	\$4,064	\$4,067	\$4,091
Tangible Property Tax	364	140	54	25,000				
Unrestricted Grants-in-Aid	10,234	10,263	10,048	9,759	9,286	9,286	9,286	9,286
Restricted Grants-in-Aid	730	777	150	140	139	139	139	139
Restricted Federal	0	0	674	1,090				
Property Tax Allocation	721	832	1,456	1,180	1,169	1,169	896	752
Other Revenues	469	446	349	328	298	298	298	298
Total Operating Revenues	\$16,260	\$16,282	\$16,590	\$16,784	\$14,860	\$14,956	\$14,686	\$14,565
Salaries & Wages	\$8,404	\$8,362	\$8,049	\$7,514	\$7,175	\$7,267	\$7,314	\$7,510
Fringe Benefits	4,383	4,162	4,292	4,220	4,313	4,592	4,633	4,972
Purchased Services	3,204	3,263	3,178	3,813	3,821	3,880	3,972	4,094
Supplies, Materials & Textbooks	751	914	834	973	796	806	790	793
Capital Outlay	335	672	176	690	116	59	53	53
Other Expenditures	412	328	320	355	350	358	364	367
Total Operating Expenditures	\$17,488	\$17,700	\$16,849	\$17,566	\$16,572	\$16,963	\$17,128	\$17,789
Net Transfers	1	0	2	0	0	0	0	0
Advances-In	251	330	456	699	400	400	400	400
Advances-Out	330	533	699	400	400	400	400	400
Net Financing	(\$78)	(\$203)	(\$241)	\$299	\$0	\$0	\$0	\$0
Result of Operations (Net)	(\$1,306)	(\$1,621)	(\$501)	(\$483)	(\$1,713)	(\$2,006)	(\$2,441)	(\$3,224)
Beginning Cash Balance	5,656	4,350	2,729	2,228	1,745	33	(1,973)	(4,415)
Ending Cash Balance	\$4,350	\$2,729	\$2,228	\$1,745	\$33	(\$1,973)	(\$4,414)	(\$7,638)
Encumbrances	656	357	618	270	187	183	182	185
Reservations	1,947	1,485	1,120	464	339	307	298	315
Ending Fund Balance	\$1,747	\$887	\$489	\$1,012	(\$493)	(\$2,463)	(\$4,895)	(\$8,139)
Performance Audit Recommendations	N/A	N/A	N/A	N/A	\$2,029	\$4,144	\$6,347	\$8,232
Adjusted Ending Fund Balance	N/A	N/A	N/A	N/A	\$1,536	\$1,681	\$1,451	\$93

Source: HHCS D October five-year forecast and performance audit

Note: Totals may vary due to rounding.

Human Resources

Background

This section of the performance audit focuses on the Harrison Hills City School District (HHCS D or the District) human resource (HR) functions. The District's human resource functions were evaluated against leading or recommended practices, industry benchmarks, and selected peer districts (peer average).⁷ Sources for leading or recommended practices and industry standards include the State Employment Relations Board (SERB), the Government Finance Officers Association (GFOA), the Kaiser Family Foundation (Kaiser), the Ohio Department of Education (ODE), Ohio Revised Code (ORC), and Ohio Administrative Code (OAC).

As a part of the performance audit, average salary levels, vision insurance, special education costs, sick leave use, and workers compensation were reviewed. These reviews did not yield recommendations.

Organizational Structure and Function

HHCS D's Superintendent reports directly to the Board of Education (the Board) and is responsible for all HR functions and the overall management of the District, including program and staff decisions. The Treasurer's personnel related duties include managing payroll, and preparing and maintaining employee contracts. During FY 2010-11, the District hired an Assistant Superintendent who is responsible for writing grants and providing general supervision and assistance for all state and federal programs, including special education and pre-school programs. The Director of Operations manages classified staff functions, such as transportation, building and grounds, and food service.

Staffing

Table 2-1 compares the full time equivalent (FTE) staffing levels per 1,000 students at HHCS D to the peer average.

⁷ See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 2-1: FTEs per 1,000 Students ¹

	HHCS FY 2009-10	HHCS FY 2010-11 ²	Peer Average FY 2009-10	Difference FY 2010-11
Administrative	6.1	5.6	7.5	(1.9)
Office/Clerical	7.3	6.2	8.0	(1.8)
Teaching	56.3	52.6	63.8	(11.2)
Education Service Personnel (ESP)	9.2	6.2	7.3	(1.1)
Educational Support	13.0	15.5	7.7	7.8
Other Certificated	0.6	1.2	0.0	1.2
Non-Certificated Classroom Support	13.7	13.0	10.0	3.0
Other Technical/Professional Staff	4.8	1.9	1.7	0.2
Other Student Services	2.5	1.9	0.9	1.0
Operations	32.7	30.3	30.3	0.0
Total Staff	146.2	134.4	137.0	(2.6)

Source: Harrison Hills City School District and the Ohio Department of Education.

¹ Students educated reflects the percent of time students are receiving educational services from the respective districts.

² This reflects students educated in FY 2009-10 because FY 2010-11 data was unavailable. However, if the District experiences a similar percentage decline in students educated for FY 2010-11 as in FY 2009-10, it would employ 140.8 FTEs per 1,000 students, slightly above the peer average of 137.0.

As illustrated in **Table 2-1**, the District employed 6.7 percent more FTEs per 1,000 students than the peer average in FY 2009-10. However, due to staffing reductions implemented by the District, HHCS employs slightly fewer total FTEs per 1,000 students in FY 2010-11 than the peer average. Nevertheless, the District still employs more FTEs per 1,000 students in the following categories:

- Educational Support:** **Table 2-1** shows that the District employs 7.8 more FTEs per 1,000 students in educational support when compared to the peer average. This is primarily due to supplemental service teachers for special education. Specifically, these positions comprise 60 percent of the total FTEs in educational support. HHCS employs 9.3 supplemental special education service teachers per 1,000 students, which is significantly higher than the peer average of 3.9. When combining the supplemental service teachers with the other special education teacher FTEs, the District employs 13.0 special education teacher FTEs per 1,000 students, which is similar to the peer average of 13.3. However, the District employs 6.2 educational support FTEs per 1,000 students when excluding the supplemental service teachers, which is higher than the peer average of 3.8. The remaining FTEs in this category for HHCS are remedial specialists (see **2.1**).

- **Other Certificated:** This category reflects 2.0 FTEs reported by the District as permanent substitutes. Based on materiality and the District employing significantly fewer teaching FTEs per 1,000 students, this staffing variance was not further investigated.
- **Non-Certificated Classroom Support:** HHCS D employs 13.0 FTEs per 1,000 students, which is 3.0 FTEs per 1,000 students more than the peer average, or about 4.8 FTE positions. This category includes teaching aides, instructional paraprofessionals and attendants. However, all FTEs in this category are instructional paraprofessionals for HHCS D. The District did not report any employees in the teaching aide and attendant categories. According to the FY 2010-11 Education Management Information System (EMIS) Manual, an instructional professional is defined as “an assignment to provide instructional assistance in one or more of the following ways: (1) one-on-one tutoring, (2) classroom management, (3) instructional assistance in a computer laboratory, (4) instructional support in a library or media center, or (5) instructional support services under the direct supervision of a teacher.” As a result, the higher staffing in instructional paraprofessionals can be partially due to the lower teacher staffing levels. In fact, when combining the teaching and non-certificated classroom support categories, **Table 2-1** shows that HHCS D employs 8.1 fewer FTEs per 1,000 students than the peer average. Nevertheless, the District may need to further explore instructional staffing levels based on its financial condition (see **2.1**).
- **Other Technical/Professional & Other Student Services:** The District employs 3.0 FTEs within other technical/professional and 3.0 FTEs within other student services. Due to the immaterial staffing levels and variances, these positions were not further reviewed. More specifically, the District would have to reduce staffing levels by 0.3 other technical/professional FTEs and 1.5 other student service FTEs to employ a similar number of FTEs per 1,000 students as the respective peer averages.

Salaries

Table 2-2 compares the District’s average salary per FTE to the peer average for FY 2009-10.

Table 2-2: FY 2009-10 Average Salary per FTE

	HHCS D	Peer Average	Percent Difference
Administrative	\$63,707	\$63,534	0.3%
Office/Clerical	\$25,346	\$26,779	(5.4%)
Teaching	\$45,248	\$43,906	3.1%
Education Service Personnel (ESP)	\$44,022	\$45,373	(3.0%)
Educational Support	\$45,382	\$34,443	31.8%
Other Certificated	\$54,554	\$0	100%
Non-Certificated Classroom Support	\$13,671	\$14,099	(3.0%)
Other Technical/Professional Staff	\$18,155	\$17,237	5.3%
Other Student Services	\$41,870	\$22,817	83.5%
Operations	\$19,532	\$19,984	(2.3%)
Total Staff	\$35,350	\$35,686	(0.9%)

Source: Ohio Department of Education, Education Management Information System.

Table 2-2 shows that District-wide average salaries were 0.9 percent lower than the peer average. However, the average teacher salary and educational support salary were higher than the peer averages, which is due to higher years of service and education levels. Specifically, ODE reports that in FY 2009-10, the District's teachers possessed an average of 16 years of experience, compared to the peer average of 15. Additionally, ODE reported that 59.0 percent of HHCS D's teachers possessed masters degrees, compared to the peer average of 47.9 percent. **Table 2-2** also shows that HHCS D maintained higher average salaries in other certificated, other teaching/professional staff, and other student services. However, the District employs a total of only 8.0 FTEs in these categories (see **Table 2-1**). Furthermore, if these positions are certificated, higher years of service and education levels can also account for the higher salaries, similar to the teaching and educational support categories.

Benefits

HHCS D self funds its health insurance program; medical, dental, prescription drug, and vision. The Board and its employees (through employee contributions) pay into a self-insurance fund that is used to pay healthcare claims when they occur, as well as the costs to administer the fund. The District has an insurance committee that is comprised of the Superintendent, the Treasurer, one Board member, three certificated employees, three classified employees, and one nurse. See **2.2** and **2.3** for further assessment.

Negotiated Agreements

HHCS D has two collective bargaining agreements with its employees, one negotiated agreement not affiliated with a collective bargaining unit, and one administrative agreement that is developed by the Board. Certificated personnel are governed by the Harrison Hills Teachers Association (HHTA), which is affiliated with the Ohio Education Association (OEA) and the National Education Association (NEA). This negotiated agreement expired on June 30, 2010.⁸ The District's classified personnel are governed by a negotiated agreement between the Board and the Ohio Association of Public School Employees Chapter #507/AFSCME and AFL-CIO. This agreement is in effect from July 1, 2008 through June 30, 2011, and represents mechanics, custodians, maintenance, cooks, bus and van drivers, secretaries, aides, and crossing guards.

The District Office agreement represents the administrative secretary, assistant treasurer, EMIS coordinator, payroll clerk, school nurse(s), technology assistant, and the technology coordinator. This agreement expired on June 30, 2010.⁹ Lastly, the District's Board has developed a salary and fringe benefit agreement with the administrative staff consisting of the Superintendent, Administrative Assistant, Treasurer, building principals, assistant principals, Psychologist, Director of Special Education, Director of Communications Technology, Director of Curriculum, and Director of Gifted Education School Safety Grant Writer. The most recent agreement was revised on September 24, 2009 with no expiration date.

During the performance audit, certain aspects of the agreements were reviewed. While certain provisions were found to be generally in line with relevant benchmarks, see **2.2**, **2.3** and **2.4** for aspects of the agreements that the District should consider altering.

⁸The District was in the process of negotiating a new collective bargaining agreement during the course of this performance audit. However, because the new agreement was not available, conclusions drawn in this performance audit are based on the agreement that expired on June 30, 2010.

⁹The above footnote for the certificated agreement is also applicable to the District Office agreement.

Recommendations

2.1 Review instructional staffing levels.

If the District does not implement the performance audit recommendations and other strategies to improve its financial condition (see financial systems), it should consider reducing staffing levels in the following categories: regular education by 9 to 19 FTEs, education service personnel by 3 FTEs, remedial specialists by 3 FTEs, and instructional paraprofessionals by 4 FTEs. Doing so would allow the District to reduce its operating costs and maintain staffing levels that comply with current State minimum requirements. However, HHCS D should weigh decisions to reduce these staffing levels against the impact the reductions may have on the quality of education. Likewise, the District should consult with ODE to determine whether the provisions in the new funding formula will correspond to new staffing requirements and ensure all proposed reductions will permit compliance with the new requirements.

Prior to reducing instructional staffing levels, the District should consider cost reductions in other areas that may require it to exceed peer and/or industry benchmarks, including facilities and transportation. Lastly, HHCS D should consider its declining enrollment trends and develop enrollment projections as it explores strategies to reduce costs (see facilities).

As shown in **Table 2-1**, the District employs fewer teaching and ESP FTEs per 1,000 students in FY 2010-11 when compared to the respective peer averages. However, the District employs more teaching and ESP FTEs than required by State minimum standards. Specifically, OAC § 3301-35-05 indicates that school districts are required to maintain at least one FTE classroom teacher for every 25 regular education students on a District-wide basis. The District could reduce up to approximately 19 teacher FTEs and still comply with this requirement, while reducing staffing by 9 teacher FTEs would result in staffing levels that are 20 percent above this requirement. OAC § 3301-35-05(A)(4) requires that school districts employ a minimum of five FTE education service personnel (ESP) for every 1,000 regular education students. ESP positions need to be assigned to at least five of the eight following areas: elementary art, music, and physical education teachers; visiting teachers; counselors; registered nurses; social workers; and library/media specialists. Based on the OAC requirements, the District could reduce ESP staffing levels by up to approximately 3.0 FTEs. Furthermore, based on **Table 2-1** and the accompanying analyses, the District could reduce 3.9 remedial specialist FTEs and 4.8 instructional paraprofessional FTEs to employ a similar number of FTEs per 1,000 students as the peer averages in the corresponding categories. Consequently, reducing staffing levels by 3.0 and 4.0 FTEs, respectively, would result in the District employing more FTEs per 1,000 students than the peer averages.

House Bill 1 (HB1) was passed at the start of FY 2009-10, which provides a new State funding formula for school districts and accounts for new teacher staffing standards. For example, to determine funding levels for “core” teacher positions, the legislation uses a ratio of 25 students per teacher in 4th through 12th grades, and 19 students per teacher in kindergarten through 3rd grades for FY 2009-10 and FY 2010-11. The student-to-teacher ratio for kindergarten through 3rd grades declines to 17:1 for FYs 2011-12 and 2012-13, and further declines to 15:1 thereafter. The aforementioned student ratios are based on formula ADM. The legislation also indicates that funding levels for “specialist” teacher positions are based on specialist teachers comprising 20 percent of core teachers in kindergarten through 8th grade, and 25 percent of core teachers for 9th grade through 12th grade. In addition, the legislation provides funding for the “licensed librarian and media specialist factor.” While the legislation addresses funding levels for counselor and nurse positions, it indicates that counselor and nurse positions will not be funded in FY 2009-10 and FY 2010-11. Finally, HB1 includes a formula for funding summer remediation programs. However, as of November 2010, the HB1 standards only impact the State funding formula and have not yet been officially adopted as required operating standards.

Financial Implication: By eliminating 9 regular education teacher FTEs, 3 ESP FTEs, 3 remedial specialist FTEs, and 4 instructional paraprofessional FTEs, HHCS D could save approximately \$785,000 in salaries and benefits, based on the beginning salary for staff with a bachelor’s degree.

The analyses in 2.1 are based on the District’s staffing levels in FY 2010-11 and students educated in FY 2009-10 because FY 2010-11 data was unavailable. If the District continues to experience declines in enrollment, it may be able to reduce additional teaching and ESP positions, and still comply with OAC requirements.

2.2 Reduce health insurance costs.

The District should review, develop, and adopt strategies for improving the cost-effectiveness of its health insurance program. Potential strategies include negotiating to institute employee requirements for co-insurance, and increase employee contributions toward monthly premium costs (e.g., 15 percent), co-pays for physician visits and prescription drugs, deductibles, and out-of-pocket maximums. HHCS D should also consider negotiating to implement a three or four tiered prescription plan. However, prior to enacting changes, the District should carefully review the provisions under the Patient Protection and Affordable Care Act, and ensure that it would realize a net cost savings by implementing the aforementioned changes. Finally, the District should work with its consortium to ensure the future premiums do not include an excessive reserve amount (see financial systems).

HHCS D offers its employees a Preferred Provider Organization (PPO) medical insurance plan. According to the American Association of Preferred Provider Organizations, a PPO is “a health

care delivery system in which health care providers contract with a preferred provider network at various reimbursement levels in return for consideration, which may include direction of patients into their practices, timely payment and/or other benefits. PPOs differ from other health care delivery systems in the way they are financed. They typically provide enhanced choice, benefit flexibility and enrollee access to quality, cost-effective medical care delivered by both in and out of network providers.” According to the *17th Annual Report on the Cost of Health Insurance in Ohio’s Public Sector* (SERB, 2009), 75.8 percent of all Ohio school districts and ESCs, and 69.1 percent of self-insured Ohio school districts and ESCs offer a PPO plan. HHCS D uses its membership in the Ohio Mid-Eastern Education Service Agency Health Care Consortium (the consortium) to procure its PPO medical insurance plan. . According to the consortium’s audited financial statements, membership rates for individual organizations are based on estimates of future costs.

Table 2-3 compares HHCS D’s total premium costs and employee contribution levels to the Statewide and Akron/Canton averages reported by SERB.

Table 2-3: Medical Insurance Premium Comparison

	Premiums ¹		Staff Contributions ²	
	Single	Family	Single	Family
HHCS D	\$709.00	\$1,574.00	3.3%	3.1%
SERB Akron/Canton Region Average	\$436.50	\$1,105.41	8.7%	8.9%
State Average	\$459.88	\$1,206.32	11.2%	12.0%

Source: HHCS D and the *17th Annual Report on the Cost of Health Insurance in Ohio’s Public Sector* (SERB 2009).

¹ The average premiums reported by SERB have been adjusted to account for inflationary factors since 2009.

² The average employee contributions from SERB exclude plans where no contribution is required from employees.

As shown in **Table 2-3**, HHCS D’s premiums for single and family coverage are significantly higher than the SERB averages, while its employee contribution rates are considerably lower. Additionally, Kaiser’s nationwide survey in 2009 reported average contribution rates for all plans of 17 and 27 percent for single and family, respectively.

The District’s higher premium costs in **Table 2-3** can be attributable to excess funding in its reserve (see **financial systems**) and the following plan features:

- Prescription co-payments:** HHCS D requires a \$3 co-pay for generic drugs and \$5 for brand name drugs, which increases to \$5 for generic drugs and \$10 for brand name drugs in the mail order program. Conversely, the 2009 SERB survey reported a median co-pay of \$10 for the 50 plans with no cost tiers; \$8 for generic and \$15 for brand name for the 237 plans with two tiers like HHCS D; and \$10 for generic, \$20 for formulary brand name, and \$35 non-formulary brand name for the 809 plans with three or four tiers. The co-pays for mail order increase in the two tier and higher plans (e.g., \$10 for generic and

\$20 for brand name for 267 plans with a two-tiered mail order program).

- **Office co-payments:** HHCS D covers 90 percent of costs after the deductible has been met for office/clinic visits, requires a \$10 co-pay for routine well child care visits, and requires no co-pay for routine well adult care visits. By comparison, the 2009 Kaiser survey reported that entities covered an average of 82 percent of the costs for in network physician visits, required an average co-pay of \$21 for primary care physician visits in PPOs, and required an average co-pay of \$28 for specialty physician visits in PPOs.
- **Co-insurance:** HHCS D does not have a separate employee co-insurance amount. In contrast, the 2009 SERB survey reported that approximately 60 percent of plans had some level of co-insurance for in network services.
- **Deductibles:** HHCS D requires employee deductibles for in network services of \$100 for single and \$200 for family. These amounts double for out of network services. By comparison, Kaiser reported average deductibles for in network services in PPO plans of \$634 for single and \$1,488 for family.
- **Out-of-pocket maximums:** The District has out-of-pocket maximums of \$250 for in network and \$750 for out of network per covered person. The 2009 SERB survey reported much higher out-of-pocket maximums: medians of \$1,000 for single and \$1,800 for family, for in network services; and \$2,000 for single and \$4,000 for family, for out of network services.

According to *Strategic Health-Care Plan Design* (GFOA, 2009), sponsors of public sector health plans face challenges in providing stable, sustainable health-care benefits. Health care cost inflation has put plan sponsors in the position of continually reacting to increased costs, rather than following a long-term plan. Plan sponsors need to find ways to manage the costs of their health care plans within the organization's financial framework and structure in order to be more efficient while continuing to offer a competitive benefit package. GFOA recommends that employers implement cost-sharing measures, such as higher deductibles, co-payments, co-insurance provisions, and employee contributions in order to control costs.

According to the Superintendent, the District's insurance committee has begun the education phase of learning how federal requirements may affect their next round of negotiating health care plans and costs. The federal program, under the Patient Protection and Affordable Care Act (PPACA), was signed into federal law in March 2010. Aspects of PPACA can impact employers' decisions regarding the provision of health insurance benefits. More specifically, PPACA allows for plans to be exempt from some of the new regulations, as a grandfathered plan. According to healthcare.gov,¹⁰ plans will lose their grandfathered status if they choose to

¹⁰Healthcare.gov is a federal government website managed by the U.S. Department of Health and Human Services.

make significant changes that reduce benefits or increase costs to consumers. Compared to their policies in effect on March 23, 2010, grandfathered plans cannot:

- Significantly reduce benefits;
- Increase co-insurance charges;
- Significantly increase co-payment charges;¹¹
- Significantly increase deductibles;¹²
- Significantly lower employer contributions;¹³
- Add or tighten an annual limit on what the insurer pays; and
- Change insurance companies. However, this does not apply to collective bargaining agreements or when employers that provide their own insurance to their workers switch plan administrators. Subsequently, the Society for Human Resource Management reported that an amendment announced on November 15, 2010 will allow group health plans to switch insurance companies without losing grandfathered status. However, if a group health plan switched insurers effective before November 15, they would still lose grandfathered status.

Healthcare.gov also notes that fully-insured health plans subject to collective bargaining agreements will be able to maintain their grandfathered status until their agreement terminates. After that point, they will lose their grandfathered status if they make any of abovementioned changes. However, healthcare.gov does not indicate whether entities would lose grandfathered status if they modify insurance benefits through existing agreements, rather than waiting for the agreements to expire. Healthcare.gov further states that if a plan loses its grandfathered status, consumers in these plans will gain additional new benefits, including coverage of recommended prevention services with no cost sharing and patient protections such as guaranteed access to OB-GYNs and pediatricians. USI Insurance estimates that providing full coverage for preventive care represents a cost increase of up to approximately 2.0 percent for employers.

According to a survey conducted by Mercer in July 2010, 53 percent of respondents indicated that they will maintain grandfathered status for all plans in 2011, while 32 percent indicated that they will lose grandfathered status for all plans in 2011 and 15 percent indicated that they will lose grandfathered status for at least one plan. Approximately half of the survey respondents that

¹¹ Compared with the copayments in effect on March 23, 2010, grandfathered plans will be able to increase those copays by no more than the greater of \$5 (adjusted annually for medical inflation) or a percentage equal to medical inflation plus 15 percentage points.

¹² Compared with the deductible required as of March 23, 2010, grandfathered plans can only increase these deductibles by a percentage equal to medical inflation plus 15 percentage points.

¹³ Grandfathered plans cannot decrease the percent of premiums the employer pays by more than 5 percentage points (e.g., decrease their own share and increase the workers' share of premium from 15 percent to 25 percent).

expect to have a grandfathered plan in 2011 believe they will have to forgo grandfathered status before 2014, and 63 percent of respondents indicated that it would be more cost effective to make changes and lose grandfathered status. Furthermore, organizations that employ fewer than 500 employees predict that costs will increase by 3.0 percent in 2011 because of PPACA provisions.

In addition to the abovementioned cost implications, PPACA contains a significant tax implication for high cost plans. Specifically, the Kaiser Family Foundation indicates that effective in 2018, employers will be subject to a 40 percent tax on the cost of coverage in excess of a \$10,200 for single coverage and \$27,500 for family coverage. The amounts are higher for retirees and those in high-risk positions (\$11,850 and \$30,950, respectively).¹⁴ By comparison, the District's current monthly premiums amount to annual costs of \$8,508 for single coverage and \$18,888 for family coverage.

Financial Implication: Based on the District's current premium costs, it would save approximately \$392,000 annually by increasing the employee contribution to 15 percent. However, if the District took additional measures to reduce its medical premiums for single and family coverage to the SERB Statewide average along with requiring a 15 percent employee contribution, the District would save approximately \$1.1 million annually. This amount is reduced to \$742,500 in order to account for the staffing reductions taking effect in FY 2010-11, the staffing recommendations in this performance audit, and the potential impact of PPACA. Depending upon the actions implemented by the District and the interpretation of the requirements in PPACA, HHCS D could be subject to additional costs under PPACA. Although it is difficult to precisely quantify these additional costs, this financial implication was reduced by 10 percent to account for PPACA. This represents a conservative estimate, based on the aforementioned information from USI Insurance and Mercer.

2.3 Require all staff to contribute to dental insurance.

HHCS D should negotiate to require all employees to contribute toward the monthly premium costs for dental insurance. For instance, requiring a 15 percent contribution would be in line with the recommendation in 2.2 for health insurance.

HHCS D offers dental insurance to staff members with the entire cost paid by the Board for all employees, except classified personnel.

¹⁴ These thresholds will be indexed to the consumer price index for urban consumers for years beginning in 2020, may be adjusted upwards if health care costs rise more than expected prior to implementation of the tax in 2018, and will be increased for firms that may have higher health care costs because of the age or gender of their workers.

Table 2-4 compares the District’s FY 2009-10 monthly premium and contribution rates for dental insurance to the SERB averages.

Table 2-4: Dental Insurance Premium Comparison

	Premiums		Staff Contributions ¹	
	Single	Family	Single	Family
HHCS D – Certificated and Administrative	\$28.68	\$68.04	0%	0%
HHCS D - Classified	\$28.68	\$68.04	26.5%	30.2%
SERB Akron/Canton Region Average	\$41.44	\$98.19	10.6%	11.4%
State Average	\$40.50	\$81.88	7.6%	9.9%

Source: HHCS D and the 17th Annual Report on the Cost of Health Insurance in Ohio’s Public Sector (SERB, 2009).

¹ Only classified employees at HHCS D contribute to the dental premium. Additionally, the SERB averages include those plans with no employee contributions to dental insurance.

As shown in **Table 2-4**, HHCS D’s premiums for single and family dental coverage are well below the SERB averages for the Akron/Canton Region and the State. **Table 2-4** also shows that HHCS D’s certificated and administrative employees do not contribute to the dental premium costs while the classified employees contribute more than the Akron/Canton Region and State averages. However, by only requiring contributions from classified staff, the District is not maximizing cost containment and is fostering inequity in the provision of dental benefits.

In FY 2010-11, the District’s dental premiums were reduced for single and family coverage to \$20.44 and \$62.15, respectively. In addition, the District eliminated employee contributions for single plan members and decreased the family plan contributions to \$14.65 (23 percent of the total premium cost).

Financial Implication: If the District required a 15 percent employee contribution, it would save approximately \$8,700 annually. This is based on the premiums and contribution rates in effect for FY 2010-11, and accounts for the staffing reductions taking effect for FY 2010-11 and the staffing recommendations in this performance audit.

2.4 Require employees to pay their portion of retirement and Medicare costs.

HHCS D should require administrators to pay the full amount of the employee’s share for retirement and Medicare contributions¹⁵. Likewise, the District should negotiate to require certificated staff to pay the full amount of the employees’ retirement contribution.

HHCS D pays a portion of the employees’ retirement contribution for certificated staff, which

¹⁵ Under certain conditions, employees may be exempt from paying the Medicare tax. While information provided by the District indicates that HHCS D is paying this amount for the applicable employees, it should ensure that all of these employees should be paying the Medicare tax prior to requiring them to do so.

increases their compensation by one percent. Likewise, the District pays varying amounts of the administrative employees' share of retirement contributions, with the specific rates depending on the position. HHCS D also pays the full amount of the Medicare contribution for administrators. As shown in **Table 2-2**, the average salary for administrators at HHCS D (\$63,707) was similar to the peer average (\$63,534), while the District's average teacher salary was higher by 3.1 percent. As a result, the payment of the employees' share of retirement and Medicare contributions would result in the District further exceeding the peer average salaries. Based on data reported by ODE, two of the four peers do not pay any portion of the employees' retirement contribution. Furthermore, paying varying amounts of the employees' retirement contribution for affected staff, along with providing the added retirement and Medicare benefits to only select staff, instills inequity in the District's provision of benefits.

Financial Implication: The District would save approximately \$82,000 annually by requiring all employees to pay the full employees' share for retirement and \$4,500 annually by requiring administrators to pay the employees' share for Medicare. These amounts are based on actual expenditures in FY 2009-10, and account for the staffing reductions taking effect in FY 2010-11 and the staffing recommendations in this performance audit.

2.5 Consider using software for substitute calls.

The District should consider using the automatic substitute calling feature of its human resources software instead of having the building principals call substitutes. This would allow the building principals to focus on other operational and educational functions.

According to the Superintendent, the human resource software package allows users to request and approve leave, review and print pay stubs, and access online forms. Although the system has a feature that allows for automated substitute calling, the District chooses to manually call substitutes. Prior to FY2010-11, building secretaries were responsible for calling substitutes, charging the District a rate of 15 minutes compensatory time per call. As a result, the District's secretaries earned 340 hours of compensatory time in FY 2008-09 and 335 hours in FY 2009-10. However, the Superintendent transferred this duty to the building principals prior to the start of FY 2010-11. Employees that request emergency leaves, by contract, are required to call the Superintendent directly. Nevertheless, using the software for this function would allow principals to perform other duties.

2.6 Update online policy manual.

The District should update its online manual to reflect all policies. Thereafter, the District should review the policies on a pre-determined frequency, such as annually. This would ensure that policies are up-to-date and relevant.

The District's online policy manual does not contain its policies related to the Business Advisory

Council to the Board and the Family and Civic Engagement Committee. These policies were located in hardcopy with December 17, 2009 as the adoption date. In addition, several policies that were randomly selected in order to verify current status in the online manual were noted to have policy adoption dates of either May 1999 or December 2006, with no other evidence of review.

2.7 Conduct annual employee surveys to obtain feedback.

The District should consider conducting annual surveys of all employees to solicit feedback, determine satisfaction levels, and assist in determining areas for improvement. The survey should be designed to cover all aspects of operations. This would provide feedback that may result in more efficient operations and improved employee satisfaction.

HHCS D does not conduct surveys of employees. This makes it difficult to evaluate satisfaction levels and work climate, and obtain employee feedback concerning District-wide operations.

Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting (GFOA, 1999) indicates that a government should develop mechanisms to identify stakeholder concerns, priorities, and needs. GFOA goes on to indicate that surveys are one mechanism that should be considered in promoting stakeholder participation. Likewise, *Conducting a Customer Satisfaction Survey* (University of Florida, 2000) noted that the Florida Innovation Group, a non-profit organization that assists county and city governments, recommends using customer satisfaction surveys to assess the performance of departments within a government agency.

Facilities

Background

This section of the performance audit focuses on Harrison Hills City School District's (HHCS D or the District) facility operations. Facility operations were evaluated against four selected peer school districts (peer average),¹⁶ leading or recommended practices, and operational standards. Sources for leading or recommended practices and operational standards include the American School and University Magazine (AS&U) and the National Center for Education Statistics (NCES).

As a part of the performance audit, the potential to close additional school buildings in the short-term after accounting for the closures already implemented by the District and general energy conservation strategies were reviewed. These reviews did not yield recommendations. In addition, the assessment of the District's overall cost-effectiveness of facility operations resulted in a noteworthy accomplishment (see the **executive summary**, and **Table 3-2**).

Organizational Structure and Staffing

HHCS D operates an administration building and three school buildings consisting of two elementary schools (pre-K to grade 6) and a junior/senior high school (grades 7 to 12). The District also operates and maintains seven modular units, which are located behind the school buildings and used for a variety of functions. Prior to FY 2010-11, the District operated four elementary schools (pre-school through 6th grade), one junior high school (7th and 8th grade), and one high school (9th grade through 12th grade). In July 2010, the Board decided to close three elementary schools, due primarily to declining enrollment and financial instability. HHCS D's student enrollment has declined each year from FY 2005-06 to FY 2009-10, averaging a decline of approximately 81 students annually. The total enrollment at the end of FY 2009-10 was 1,755 students.

Table 3-1 shows HHCS D's staffing levels for the facility function by position and based on functional responsibility, for FYs 2009-10 and 2010-11.

¹⁶ See **executive summary** for a list of the peer districts and an explanation of the selection methodology.

Table 3-1: HHCS D Facility Staffing Breakdown

Classification	Number of Positions (FY 2009-10)	Number of FTEs (FY 2009-10)	Number of Positions (FY 2010-11)	Number of FTEs (FY 2010-11)
Custodians	14.0	12.1	11.0	10.6
Maintenance	2.0	2.0	1.0	1.0
Total Staff	16.0	14.1	12.0	11.6

Source: HHCS D

Table 3-1 shows that in FY 2009-10, the District employed 14.0 custodians, equaling 12.1 full-time equivalents (FTEs), that are responsible for cleaning each school building, and maintaining the exterior environment around the buildings and grounds (i.e., mowing grass, maintaining all sports fields, and removing snow and ice on walk paths and doorway entrances). The District also employed 2.0 FTE maintenance employees who are responsible for various building maintenance tasks, such as changing filters, handling electrical and plumbing issues, as well as repairing the heating and cooling system. Although principals act as the primary oversight of custodians in their respective buildings, the Superintendent is in charge of facility operations and oversees maintenance staff. However, as of August 2010, the District created and filled a Director of Operations position, who will oversee all facility operations.

Table 3-1 also shows that the District reduced its custodial and maintenance staffing levels by 3.0 positions (2.5 FTEs) prior to the start of FY 2010-11, in response to its decision to close three elementary schools. See **3.1** for further assessment.

Financial Data

Table 3-2 compares HHCS D's facility expenditures per square foot in FY 2009-10 and FY 2008-09 to the AS&U national median and peer average.

Table 3-2: Facility Expenditures per Square Foot in FY 2008-09

Expenditure Category	HHCS FY 2009-10 ¹	HHCS FY 2008-09 ¹	AS&U National Median FY 2008-09	Peer Average FY 2008-09 ²
Salaries and Benefits	\$1.85	\$1.81	\$2.07	\$2.65
Purchased Services	\$0.30	\$0.27	\$0.23	\$1.14
Utilities	\$0.99	\$1.04	\$1.43	\$1.39
Supplies & Materials	\$0.22	\$0.25	\$0.33	\$0.33
Capital Outlay	\$0.00	\$0.06	\$0.00	\$0.61
Other	\$0.00	\$0.00	\$0.36	\$0.00
Total Expenditures	\$3.36	\$3.44	\$4.42	\$6.12

Source: HHCS, peers and AS&U

¹ HHCS's FY 2009-10 data is based on its financial records and includes all expenditures. FY 2008-09 is based on ODE's Expenditure Flow Model (EFM). The EFM data for HHCS does not exclude any facility expenditures.

² The peer average expenditures are based on ODE's EFM, which may exclude certain expenditures for the facilities function.

Table 3-2 shows that HHCS's total facility expenditures per square foot in both years were below the AS&U national median and peer average. Furthermore, the District's total expenditures decreased by 2.2 percent in FY 2009-10. The District's expenditures per square foot were lower than the peer average in each category and exceeded the AS&U national median in only the purchased services category.

Recommendations

3.1 Eliminate 1.0 custodial FTE and reallocate 1.0 custodial FTE.

The District should reallocate 1.0 custodian FTE to the maintenance function and eliminate another 1.0 custodian FTE. Doing so would bring staffing levels more in line with industry benchmarks and help ensure that the buildings are adequately maintained. Going forward, HHCS D should monitor its staffing levels and contracted services to ensure that it devotes adequate resources to the upkeep of its facilities and, in turn, minimizes the potential for expensive repairs in the long run.

Table 3-3 compares the District's staffing levels to benchmarks from AS&U and NCES.

Table 3-3: Facility Staffing

	FY 2009-10	FY 2010-11 ¹
Maintenance Function		
HHCS D FTEs	2.00	1.00
HHCS D Square Footage Maintained	335,655	237,779
AS&U Five Year Average Square Feet per Maintenance FTE ²	95,000	95,000
FTEs Needed Based on AS&U Benchmark	3.53	2.50
Difference for Maintenance Function	(1.53)	(1.50)
Custodial and Groundskeeping Function		
HHCS D FTEs	12.09	10.63
HHCS D Acreage Maintained	12.8	12.8
HHCS D Square Footage Cleaned	335,178	237,372
AS&U Five Year Average Acres per Groundskeeper FTE ²	40	40
Groundskeeper FTEs Needed Based on AS&U Benchmark	0.32	0.32
NCES Benchmark Square Footage per FTE Custodian ³	29,500	29,500
Custodian FTEs Needed Based on NCES Benchmark	11.36	8.05
Total FTEs Needed Based on Benchmarks	11.68	8.37
Difference for Custodial and Groundskeeping Function	0.41	2.26
Total Difference for All Functions	(1.12)	0.76

Source: HHCS D, AS&U, and NCES

¹ FY 2010-11 data represents staffing levels and square footage based on the District closing three buildings.

² This is the annual average (2005 to 2009) calculated from the data reported in AS&U's *Maintenance and Operations Cost Study*, which is an annual publication.

³ This is taken from NCES' *Planning Guide for Maintaining School Facilities* (2003), which reflects the midpoint of the normal standard for most school facilities of 28,000 to 31,000 square feet per FTE custodian.

As illustrated in **Table 3-3**, HHCS D operated with fewer maintenance FTEs and more custodian/groundskeeper FTEs in both years, when compared to the respective benchmarks.

Most notably, the disparity in custodian/groundskeeper FTEs increased from employing only 0.41 more FTEs in FY 2009-10 to 2.26 more FTEs in FY 2010-11, when compared to the benchmark. Conversely, the District employed approximately 1.5 fewer maintenance FTEs in both years than the benchmark. In addition, the level of contracted services for maintenance and repairs can impact maintenance staffing levels. In FY 2008-09, AS&U reported the national median for contracted maintenance and repair services at \$0.23 per square foot. Although the District did not report any contracted costs in the “repair and maintenance services” object code in its accounting system, it did report expenditures in the “professional and technical services” object code. Specifically, the District spent \$0.22 in FY 2008-09 and \$0.25 in FY 2009-10 on professional and technical services for facility operations. This is in line with AS&U’s national median, assuming that AS&U’s contracted data captures similar costs.

Eliminating 1.0 custodian FTE and transferring another 1.0 custodian FTE to the maintenance function would align the District’s staffing levels closer to the respective benchmarks. More specifically, the District would still employ 0.26 more FTEs in the custodian/groundskeeper function than the benchmarks. Although HHCS D would still maintain more square footage per maintenance FTE (118,890) than the AS&U benchmark, it would maintain significantly less square footage per FTE than in FY 2009-10 (167,828) and FY 2010-11 (237,779). Additionally, allocating more staff to the maintenance function would better ensure that the District adequately addresses facility needs, including preventive maintenance (see 3.2).

Financial Implication: If HHCS D eliminates 1.0 FTE, it would save approximately \$40,000 in salaries and benefits, based on the lower salaried full-time custodians and the District’s forecasted relationship of benefits to salaries in FY 2009-10.

3.2 Develop a preventive maintenance program.

The District should develop a formal preventive maintenance program. In doing so, HHCS D should consider the process recommended by NCE S, and schedule and track the preventive maintenance activities through the work order system. Planning, performing, and tracking preventive maintenance activities will help the District minimize facility and equipment deterioration, efficiently schedule projects, and track costs associated with certain preventive maintenance activities.

Although the District does not have a formal preventive maintenance program, the Superintendent indicated that maintenance staff conducts preventive procedures. In addition, the District uses software to maintain and track work orders. However, the Director of Operations indicated that while the software includes a preventive maintenance process, the District is not fully using this capability. The absence of a formal preventive maintenance program increases the risk for inadequate upkeep of facilities, which is further compounded by the relatively low number of maintenance staff (see 3.1).

The Planning Guide for Maintaining School Facilities (NCES, 2003) indicates that a good maintenance program is built on a foundation of preventive maintenance. Once the items that should receive preventive maintenance have been identified, planners must then decide on the frequency and type of inspections and maintenance activities to be performed. Manufacturers' manuals are a good place to start when developing this schedule; they usually provide guidelines about the frequency of preventive services, as well as a complete list of items that must be maintained. Once the information is assembled, it must be formatted so that preventive maintenance tasks can be easily scheduled. Ideally, scheduling is handled by a computerized maintenance management program which can track information about the equipment and building to be serviced, the date the service was provided, the name of the technician, and the cost of the materials.

3.3 Develop long-range facility master and capital improvement plans, and enrollment projections.

The District should develop and periodically update a facilities master plan that reflects current building configurations and needs, and stakeholder input. The plan should address capital improvements, including the timing of projects and their related costs, and encompass other pertinent elements (e.g., enrollment projections and capacity analysis). Taking these steps would help HHCS D address its long-term facility needs and regularly assess its building utilization levels, which would be especially important if the District continues to experience declines in student enrollment.

HHCS D has a policy on facilities planning which indicates that the Board concerns itself with both short- and long-range planning for the properties of the District, and follows a long-term building program to serve as a guide for capital improvements. Despite this policy, the District does not have long-term facilities master plan or capital improvement plan. Likewise, the District has not completed long-term enrollment projections.

AOS completed a building utilization analysis to determine the impact of the District's building closures, which took effect in FY 2010-11. The building capacity calculations are based on a methodology derived from DeJong and Associates (*Defining Capacity*, DeJong & Craig, 1999), which considers functional capacity. Based on these calculations, the District is operating at 97 percent of the functional capacity at the junior/senior high school, and an average of approximately 83 percent of the functional capacity at the elementary schools. Based on the functional capacity of each building and the enrollment at the end of FY 2009-10, it is not possible to close another school building. However, closures may be possible in the future if the District continues to experience declines in enrollment. As noted previously, enrollment declined each year from FY 2005-06 to FY 2009-10, averaging a decline of approximately 81 students annually.

According to *Creating a Successful Facility Master Plan* (School Planning & Management, 2001), school districts should have a systematic methodology for facilities planning. A district-wide facility master plan is typically a ten-year plan. The plan should be based on a foundation of sound data and community input, and should provide a road map for addressing the district's facility needs. Furthermore, this publication notes master plans should:

- Clearly state what buildings are to remain, which are not, which need renovation, and any new buildings;
- Specify the identified projects, the timing and sequencing of the projects, and their estimated cost;
- Be the convergence of the condition of the existing facilities, the desired educational program, the demography of the district and a vision for the future;
- Be updated periodically to incorporate improvements, changes in demographics or other educational directions; and
- Be used as an opportunity for a community to come together to determine how educational facilities can be an impetus for change and improvement, which requires the collaboration of educators, administrators, policy makers, community members, and the facility experts.

DeJong & Associates, Inc. identifies the following as essential components of a facilities master plan:

- Historical and projected student enrollment figures;
- Demographic profile of the community/school district;
- Facility inventory;
- Facility assessment (condition and educational adequacy of buildings);
- Capacity analysis;
- Educational programs;
- Academic achievement; and
- Financial and tax information.

The Government Finance Officers Association (GFOA) indicates that all governments should develop and adopt a multi-year (at least three but preferably five years or more) capital plan to ensure effective management of capital assets. A prudent capital plan will identify and prioritize expected capital needs based on a government's strategic plan, establish project scope and cost, detail estimated funding by source, and project future operating and maintenance costs. Further, GFOA recommends that all governments prepare and adopt a formal capital budget. The capital

budget should be directly linked to, and flow from, the multi-year capital plan. GFOA notes that a properly prepared and adopted capital budget is essential to ensure proper planning, funding, and implementation of major projects.

By developing long-range plans, the District will be better positioned to ensure that facility needs are addressed on a regular basis. This, in turn, can help advance its educational mission through the quality and configuration of its facilities.

3.4 Develop a handbook.

The District should consider developing a formal handbook for facility operations that addresses relevant topics, such as accountability measures, proper cleaning methods, safety procedures, repair and security standards, and work order procedures. The District should review the handbook annually and update the procedures as necessary.

The District identifies specific tasks required of its custodial staff within individual job descriptions, Board policies, position schedules, and the negotiated agreement. However, HHCS D does not have a formal handbook for all facility staff that describes the cleaning, maintenance, and groundskeeping functions.

According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), facility departments should have a policies and procedures manual that governs day-to-day operations and includes pertinent elements, such as accountability measures, repair standards and work order procedures. Likewise, the International Sanitary Supply Association (ISSA) has developed a handbook designed to help train and guide custodians. The handbook details the correct cleaning methods as well as the proper use of custodial equipment, and offers guidelines and tips on the following:

- Floor finish application;
- Auto scrubbing;
- Carpet care and maintenance;
- Damp/wet mopping;
- Proper dilution methods;
- Dust mopping;
- Oscillating and multiple brush floor machines;
- Scrubbing/stripping;
- Spray buffing/high speed burnishing;
- Wall washing;
- Washroom cleaning;
- Wet/dry vacuums; and

- Window cleaning.

Without a formal handbook to guide custodial and maintenance operations, the District increases the risk for inconsistent and ineffective procedures.

3.5 Develop staff performance standards.

The District should develop formal performance standards for facility staff. This would better ensure that staff are evaluated objectively, and perform efficiently and effectively.

The District does not use formal performance standards when evaluating facility staff. The lack of performance standards can cause difficulties in objectively evaluating performance, and increase the risk for inefficient and ineffective performance.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) suggests that employee performance evaluations be conducted on a regular basis to ensure that staff is participating in meeting an organization's goals and objectives. Moreover, to assess staff productivity, managers and supervisors must establish performance standards and evaluation criteria. For example, a custodian's performance might be measured by the amount of floor space or number of rooms serviced, the cleanliness of the facilities, and his or her attendance record. This publication further indicates that management should use the following guidelines for developing performance standards:

- Establish goals;
- Create an evaluation instrument;
- Be as detailed and specific as possible;
- Define the performance scale (e.g., 0=poor to 5=excellent);
- Be flexible (acknowledge extraordinary circumstances when they arise);
- Convey expectations clearly; and
- Review the performance standards on a regular basis.

In addition, according to *Continual Improvement* (AS&U, 2008), a simple walkthrough of the building can assess the state of cleanliness and orderliness by observing the following:

- How efficiently and effectively cleaning is being done;
- Filter bags and capture tanks are being emptied at the appropriate intervals;
- Safeguards are practiced to avoid back and other injuries; and
- Handling of recyclables and waste are appropriate.

Transportation

Background

This section of the performance audit focuses on Harrison Hills City School District's (HHCS D or the District) transportation operations. Transportation operations were evaluated against selected peer school districts,¹⁷ recommended or leading practices, and operational standards from applicable sources. Sources of recommended or leading practices and operational standards include the Ohio Revised Code (ORC) and the Ohio Department of Education (ODE).

As a part of the performance audit, the District's transportation policies and data reporting process were reviewed. These reviews did not yield recommendations. In addition, the assessment of the District's overall efficiency and cost-effectiveness resulted in a noteworthy accomplishment (see the **executive summary**, and **Tables 4-1** and **4-2**). Furthermore, route times were identified as an issue for further study (see the **executive summary**).

Summary of Operations

HHCS D's Board of Education transportation policies reflect the minimum requirements in Ohio Revised Code (ORC) § 3327.01 by stating, in part, that "the Board provides transportation for resident elementary students, in grades kindergarten through grade eight who live more than two miles from school and for all students with physical or mental disabilities which make walking impossible or unsafe. The transportation of high school students is optional." The policy also allows the Board to grant exceptions for transportation services based on safety conditions and reassigning students to other buildings. As a result, the District transports some high school students and other students that live less than two miles from their school. In addition, the District transports students to four vocational education facilities.

HHCS D used 25 active buses and 11 spare buses to transport 1,494 regular needs riders and 28 special needs riders in FY 2009-10. The District provides transportation services under the supervision of the Superintendent and the Director of Operations.

¹⁷ See **executive summary** for a list of the peer districts and an explanation of the selection methodology. The "peer average" used in the audit comprises four school districts, unless noted otherwise.

Operational Statistics

Table 4-1 compares HHCS D's FY 2009-10 and FY 2008-09 key transportation statistics and operating ratios to the peer average for FY 2008-09.

Table 4-1: Key Statistics and Operating Ratios

	HHCS D FY 2009-10	HHCS D FY 2008-09	Peer Average FY 2008-09
Square Miles	383	383	135
ODE Enrollment	1,761	1,859	1,749
Total Students Transported (All Types)	1,531	1,494	1,068
Public Yellow Bus Riders	1,494	1,447	1,042
Non-Public Yellow Bus Riders	0	0	19
Special Needs Yellow Bus Riders	28	30	3
Total Yellow Bus Riders	1,522	1,477	1,065
Active Buses	25	26	19
Spare Buses	11	11	7
Annual Routine Miles	597,960	560,160	290,520
Annual Non-routine Miles	55,815	50,395	29,997
Total Miles	653,775	610,555	320,517
Enrollment per Square Mile	4.6	4.9	13.4
Riders per Square Mile	4.0	3.9	7.5
Yellow Bus Riders per Active Bus	60.9	56.8	52.4
Routine Miles per Active Bus	23,918	21,545	14,509
Non-routine Miles as Percent of Total Miles	8.5%	8.3%	11.8%
Spare Bus Ratio	30.6%	29.7%	29.1%
Public Riders Percent of Total Enrollment	84.8%	77.8%	54.4%

Source: HHCS D and peer transportation reports submitted to ODE.

Note: Totals may vary due to rounding.

As **Table 4-1** indicates, HHCS D transported more riders per bus in FY 2008-09 and FY 2009-10 than the peer average in FY 2008-09. This is despite HHCS D being less densely populated than the peers, which is evident by the significantly lower numbers of enrollment per square mile and riders per square mile. The lower population density is due to the District's significantly larger size. Specifically, the District comprises 383 square miles, which is 2.8 times higher than the peer average. It should be noted that one peer district significantly skews the peer average, and three of the four peers transported 58 to 59 riders per active bus, which is similar to HHCS D. However, these three peers are more densely populated than HHCS D, based on the three peer average of riders per square mile (8.6) and enrollment per square mile (13.0) being more than double HHCS D. As a result, the three peers have a greater ability to transport more riders per bus than HHCS D.

The District's ability to transport a high number of riders per active bus when taken in conjunction with its sparse population is partially due to the use of routing software, which aids in the identification of cluster stops and routing efficiency (see *Noteworthy Accomplishments* in the **executive summary** section). Moreover, maximizing the number riders per active bus contributes to lower costs (see **Table 4-2**). The District's larger size also contributes to accumulating considerably more routine miles per active bus (23,918 and 21,545) than the peer average (14,509). Lastly, **Table 4-1** shows that the District transports a significantly higher percentage of students (84.8 and 77.8 percent) than the peer average (54.4 percent). This can be due to the size of the District and potential safety concerns.

Table 4-2 compares HHCS D's FY 2009-10 and FY 2008-09 yellow bus transportation costs on a per rider, per bus, and per routine mile basis to the peer average for FY 2008-09.

Table 4-2: Transportation Cost Comparison

	HHCS FY 2009-10 ¹	HHCS FY 2008-09	Peer Average FY 2008-09	Percent Above/(Below) FY 2008-09
Salaries				
· Per Yellow Bus Rider	\$274.55	\$300.71	\$402.38	(25.3%)
· Per Active Bus	\$16,714.40	\$17,082.65	\$20,376.85	(16.2%)
· Per Routine Mile	\$0.70	\$0.79	\$1.51	(47.5%)
Benefits				
· Per Yellow Bus Rider	\$291.09	\$308.94	\$313.95	(1.6%)
· Per Active Bus	\$17,721.44	\$17,550.38	\$16,107.21	9.0%
· Per Routine Mile	\$0.74	\$0.81	\$1.21	(32.5%)
Maintenance & Repairs ²				
· Per Yellow Bus Rider	\$106.33	\$114.36	\$198.47	(42.4%)
· Per Active Bus	\$6,473.56	\$6,496.54	\$9,375.76	(30.7%)
· Per Routine Mile	\$0.27	\$0.30	\$0.70	(56.7%)
Fuel				
· Per Yellow Bus Rider	\$137.82	\$138.05	\$130.07	6.1%
· Per Active Bus	\$8,390.60	\$7,842.58	\$6,466.36	21.3%
· Per Routine Mile	\$0.35	\$0.36	\$0.49	(25.5%)
Bus Insurance				
· Per Yellow Bus Rider	\$11.20	\$11.89	\$18.81	(36.8%)
· Per Active Bus	\$681.76	\$675.54	\$832.74	(18.9%)
· Per Routine Mile	\$0.03	\$0.03	\$0.06	(49.8%)
All Other Costs				
· Per Yellow Bus Rider	\$19.81	\$16.21	\$54.12	(70.0%)
· Per Active Bus	\$1,206.28	\$921.08	\$2,903.66	(68.3%)
· Per Routine Mile	\$0.05	\$0.04	\$0.24	(82.4%)
Total Expenditures				
· Per Yellow Bus Rider	\$840.80	\$890.17	\$1,117.81	(20.4%)
· Per Active Bus	\$51,188.04	\$50,568.77	\$56,062.57	(9.8%)
· Per Routine Mile	\$2.14	\$2.35	\$4.21	(44.2%)

Source: HHCS and peer district T-forms.

Note: Percentages may vary due to rounding.

¹ This reflects cost data that has been submitted by the District to ODE, but not yet approved by ODE. The performance audit tested the cost data for FY 2008-09 and deemed it sufficiently reliable.

² Includes mechanic and mechanic helper salaries.

Table 4-2 shows that HHCS's total expenditures in FY 2008-09 were lower than the peer average in all categories except benefits per active bus (see **human resources**), and fuel costs per rider and per active bus. The higher fuel costs per rider and per bus are attributed to the District's larger geographical size, which results in a less dense population and each bus

accumulating more miles (see **Table 4-1**). Overall, **Table 4-2** shows that HHCS D's total yellow bus expenditures were 20.4 percent lower per rider, 9.8 percent lower per active bus, and 44.2 percent lower per routine mile, when compared to the respective peer averages in FY 2008-09. Furthermore, the yellow bus expenditures per active bus increased by only 1.2 percent in FY 2009-10, while expenditures per rider and per routine mile both decreased in FY 2009-10.

Taken collectively, **Tables 4-1** and **4-2** show that the District's transportation operations are efficient and cost-effective. This is further confirmed by HHCS D exceeding efficiency targets established by ODE. Moreover, the Board approved the closure of three school buildings, effective FY 2010-11. This resulted in eliminating five bus driver positions and five active buses. See *Noteworthy Accomplishments* in the **executive summary** section for more information.

Recommendations

4.1 Seek opportunities to reduce transportation expenditures through partnerships, parent/guardian contracts, and smaller vehicles where applicable.

The District should seek opportunities to partner with other districts to deliver transportation services, particularly for special needs students. By doing so, the District may be able to reduce costs and improve efficiency. In addition to partnerships with other districts, HHCS D should further review the potential of using other less costly means for transporting special needs students, such as parent/guardian contracts and smaller vehicles.

As previously noted, the District's overall transportation operations are cost-effective and efficient. However, the District could further improve cost-effectiveness and efficiency by exploring the following strategies:

- **Parent/Guardian Contracts:** The T-1 reports from FY 2006-07 to FY 2009-10 show that the District has not used parent/guardian contracts for special needs transportation. The only potential exception is in FY 2008-09 where the District reported two special needs riders in the category that can include parent/guardian contracts. According to District officials, HHCS D tried to pursue a parent/guardian contract with a particular parent, who refused it.
- **Smaller Vehicles:** The T-1 reports from FY 2006-07 to FY 2009-10 reveal that the District does not use smaller vehicles to transport students. For instance, the District used three buses to separately transport the following numbers of special needs riders in FY 2009-10: 13, 14 and 1. The bus capacity for these three buses ranges from 54 to 71 riders. The Director of Operations indicated that the District considers the use of a bus to be the best and safest way to transport a particular student, as opposed to using a van.
- **Partnerships:** The Director of Operations noted that while the District is not currently sharing any services with other districts, it is in discussions with neighboring districts to share transportation services for a special needs rider.

Shared Services in School Districts: Catalogue of Best Practices (Institute on Education Law and Policy, 2007) indicates that certain school districts in Sussex County (New Jersey) have decreased their transportation costs by at least 50 percent by sharing routes with other school districts.

District Response

The letter that follows is HHCS D'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. While the District's official response did not require any modifications to the performance audit report, the following is intended to clarify certain items mentioned in the response:

- In certain cases, the performance audit used the District's audited financial statements. However, the performance audit does not render an audit opinion on those financial statements.
- Performance audit work was conducted between June 2010 and November 2010, and data was drawn primarily from fiscal years 2008-09, 2009-10 and 2010-11.
- The performance audit did not change the projections in the District's five-year forecast. However, it recommended that the District review the salary, benefit, purchased service and transfer/advance projections to ensure the figures and related assumptions are reasonable and justifiable.
- The **human resources** section shows that the District employs fewer total staff per 1,000 students. Categories with fewer staff per 1,000 students are administration, office/clerical, teaching, and educational service personnel. Categories with more staff per 1,000 students are educational support, other certificated, non-certificated classroom support, other technical/professional staff, and other student services.
- The **human resources** section recommends that the District account for certain factors when considering reductions to instructional staffing levels (see **2.1**).
- The District could approach the collective bargaining units and administrators to implement the related audit recommendations prior to the expiration of the existing contracts.
- The performance audit concluded that the District is transporting students in a cost-effective and efficient manner (see **Noteworthy Accomplishments** in the **executive summary**). However, the performance audit did not determine whether the District's transportation operations were the most efficient in Ohio, based on square mileage.

HARRISON HILLS CITY SCHOOL DISTRICT

P.O. Box 356 - 422 Normal Street
Hopedale, Ohio 43976

Dr. George Ash
Superintendent

Phone: 740-942-7800 Fax: 740-942-7808

Roxane Harding
Treasurer

February 11, 2011

Mr. James Penning, Chief Auditor
Performance Audit Section
Laushe Building
615 Superior Avenue, NW, Twelfth Floor
Cleveland, Ohio 44113-1801

Re: Harrison Hills City School District Performance Audit - June 2010 through February 2011

Dear Mr. Penning:

I read the Performance Audit Draft that examined the financial statements of the Harrison Hills City School District as of June 30, 2010. I recognize that obtaining representation from management concerning the information contained in the audit was an important procedure in enabling the Auditor of State's Office to form an opinion on financial statements. Also, members of management of the Harrison Hills City School District are responsible for the results of operations, and changes in financial position, in conformity with generally accepted accounting principles. In connection therewith, I make the following representations, which are true to the best of my knowledge.

The Performance Auditor's explored four areas for improvement within the school district. The four areas were: a) Financial Systems, b) Human Resources, c) Facilities, and d) Transportation. Two areas included noteworthy accomplishments, facilities and transportation, which were very gratifying due to the hard work by employees dedicated to improving the operations and financial position of Harrison Hills City School District.

The Financial Systems section was a review of the five year forecast performed by the Treasurer. The audit team did not make any changes to the forecast, which validated the Treasurer's system for projecting financial positioning of the school district. Key recommendations were made and included: a) develop a strategic plan, b) expand forecasting policy, c) adopt policy and procedures for fees and contingency, d) address the athletic fund deficit, e) negotiate direct deposit, f) establish an audit committee, g) expand community reporting, h) reduce excess insurance reserves, and i) expand shared services and partnerships with other districts.

The school district administration and board members began policy revisions with our legal counsel and is currently in committee. Insurance reserves were reduced by enacting two months moratorium. Finally, Harrison Hills City School District representatives and an adjacent local school district administration agreed to share transportation services saving approximately \$70,000. This was the first of its kind in the State of Ohio and encompassed shared transportation services covering nearly 600 square miles.

The human resources section showed the district was understaffed in all areas but non-certified personnel. This validated the recent reductions in certified personnel and showed maximum efficiency of certified personnel. The recommendations from the human resource section by performance audit

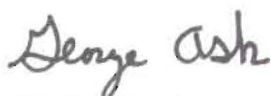
personnel included: a) review of instructional staffing levels, b) reduction of health insurance costs, c) require all staff to contribute to dental coverage, d) increased payments towards retirement and Medicare, e) consider using software for substitute calls, f) update policy manual, and g) conduct annual surveys. The staffing audit review showed an excessive number of intervention specialists and paraprofessionals. The reduction of these classifications was recommended and will be considered by district administration. The audit team suggested the elimination of one custodian and the reallocation of another. This was completed by the start of the school year. The recommendations for many of the aforementioned items, specifically b, c, and d, are negotiated items; therefore, timeline of implementation would take a minimum of three to five years according to audit personnel. The district administration considered the software program; however, the cost was approximately \$5,000 to \$10,000 per year. The district administration places calls for substitution of staff. The policy update was implemented and is currently in committee. The policies of the district may be updated by summer of 2011.

Facilities recommendations by audit personnel included: a) elimination of one custodian and reallocating one custodian, b) develop a preventive maintenance program, c) develop a long-range master and capital improvement plan based on enrollment projections, d) develop of a handbook for custodians and maintenance, and e) develop staff performance standards. The district administration began the process of creating master plans and handbooks for custodial/maintenance personnel. The facilities section was one of the noteworthy accomplishments from the performance audit staff. The district personnel continued to save facility cost this year by completion of a House Bill 264 Project, which reduced the energy usage, thus, saving enough money to retrofit lighting in two buildings. Also, American Electric Power provided over \$8,000 in incentives for going green.

Finally, transportation was reviewed and noted as the most efficient operation based on square mileage in the great State of Ohio. The major recommendation was to seek opportunities for partnerships to reduce cost even further. The district administration and board members worked with another local school district and board to create a partnership to save approximately \$70,000 per school year by sharing a Director of Operations.

In conclusion, the performance audit recommendations were or are in the process of being implemented to contain costs as revenues sources are reduced, often dramatically. Negotiations may be the next obstacle to help overcome reductions while maintaining educational services. I would like to extend a special thank you to Mr. Jim Pyers, Senior Audit Manager, for his patience, professionalism, and immeasurable practical financial intelligence.

Sincerely,



Dr. George Ash

Cc: Mrs. Roxane Harding, Treasurer
Mr. G. Edward Kovacik, Director of Operations
Mr. Jim Pyers, Senior Audit Manager
Mr. Roger Hardin, ODE Finance
Mr. Jim Armeni, Youngstown Regional Liaison
File