MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY

PERFORMANCE AUDIT

FEBRUARY 14, 2012

Dave Yost • Auditor of State

Dave Yost · Auditor of State

To the Residents, Board, and Administration of the Madison Local School District:

As requested by the Ohio Department of Education and in cooperation with the Madison Local School District, the Auditor of State initiated a performance audit of certain areas within the District, due to the projected deficits in its five-year forecast. The functional areas assessed during the audit were financial systems, human resources, facilities, transportation and food service. 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 that identify the potential for cost savings and efficiency improvements. While the recommendations contained in the audit report are resources intended to assist in improvement efforts, the District is encouraged to assess overall operations and develop additional alternatives.

An executive summary has been prepared which includes background information; a District overview; financial outlook; subsequent events; the methodology and scope for the performance audit; key conclusions, recommendations and financial implications; 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 "Search" option.

Sincerely,

Dave Yost
Auditor of State

February 14, 2012

Table of Contents

Executive Summary

Background

As requested by the Ohio Department of Education and in cooperation with the Madison Local School District (MLSD or the District), the Auditor of State (AOS) initiated a performance audit of certain areas within the District, due to the projected deficits in its five-year forecast. Based on a review of MLSD's information and discussions with the District, the following functional areas were included in the performance audit:

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

District Overview

MLSD operates under a locally elected Board of Education (BOE) consisting of five members that is responsible for providing public education to students. The District is located in Lake County and encompasses the Village of Madison, Madison Township, and a portion of Thompson Township. In FY 2010-11, the District served 3,508 students and employed approximately 328 full-time equivalent (FTE) employees, including 16 administrative FTEs, 227 certificated and classroom-related FTEs, and 85 classified and other support staff FTEs. Based on the FY 2010-11 ODE Local Report Card, MLSD met 23 of 26 performance standards and received the academic designation of Excellent.

MLSD operates a total of eight facilities consisting of three elementary schools (kindergarten through 5th grade), a middle school (6th grade through 8th grade), a high school (9th grade through 12th grade), a Board of Education building, a bus garage, and the Memorial Complex. The District has a contract with Community Bus Services, Inc. (CBS) to provide student transportation services from FY 2008-09 through FY 2012-13. MLSD used CBS to transport 1,898 riders on yellow buses in FY 2010-11.

The District offers a food service program through on-site kitchens located at each of the five school buildings. For accounting purposes, the food service program is organized as an enterprise operation that is intended to be self-sufficient through user charges. However, MLSD's food service program has experienced deficits the last three years, requiring periodic transfers from the General Fund in order to maintain positive cash balances.

Financial Outlook

MLSD operated with a structural deficit in FY 2009-10 when total expenditures exceeded revenues by $627 per student, or approximately seven percent of the total revenues. The peers also maintained structural deficits; however, the shortfall was much smaller at $259 per student, or approximately three percent of the total revenues. According to the District's May 2011 five-year financial forecast, MLSD was projected to end FY 2010-11 with a positive fund balance of approximately $443,000.[1] However, the District's financial condition is projected to decline annually thereafter, leading to a deficit of approximately $13.2 million in FY 2014-15.

Table 1-4 presents MLSD's financial condition after considering the impact of the performance audit recommendations and the timing differences for the State funding and personnel services projections identified in **R1.1**. Based on **Table 1-4**, the District will have to make difficult management decisions in order to improve its financial condition. Specifically, when the financial implications for all performance audit recommendations are included, **Table 1-4** shows that the District is projected to experience a negative fund balance each year from FY 2012-13 through FY 2014-15. As a result, MLSD will need revenue increases and/or other expenditure reductions to resolve the projected financial difficulties. However, the forecast in **Table 1-4** will depend on the attainment of the District's projections, timing related to implementing the performance audit recommendations, and the actual impact of the performance audit recommendations. For instance, if the District was able to reduce special education costs per student to the peer average without impacting the other performance audit recommendations, it would achieve positive ending fund balances in each year.

This performance audit identifies areas where the District can improve efficiency and generate cost savings. The District is encouraged to review the results of this performance audit with the BOE, community and other stakeholders. Prior to the adoption of final strategies for addressing its financial difficulties, MLSD is encouraged to discuss all potential options with stakeholders to obtain their input and expectations.

Subsequent Events

During the course of this performance audit, Senate Bill (SB) 5 was enacted into State law. SB 5 revises the public employee collective bargaining law and changes compensation and terms of employment for public sector employees. While SB 5 would have addressed areas that were assessed in the performance audit of MLSD, it was overturned by a referendum in the November 2011 election.

[1] The District concluded FY 2010-11 during the course of this audit. The actual ending fund balance for FY 2010-11 was $417,781.

Audit Methodology and Scope

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

AOS conducted the performance audit of MLSD in accordance with Generally Accepted Government Auditing Standards (GAGAS). These standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. AOS believes 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 April 2011 and September 2011, and data was drawn primarily for fiscal years 2009-10 and 2010-11. To complete this report, the auditors conducted interviews with District personnel, and reviewed and assessed information from MLSD, peer school districts, and other relevant sources. Although the performance audit found problems with the District's transportation data, they did not impact the conclusions reached in the performance audit and/or adjustments were made to improve data reliability (see **Table 4-1** and **R4.1**). Peer school district data and other information used for comparison purposes was not tested for reliability.

AOS primarily used 8 districts as peers for benchmarking purposes: Norton CSD (Summit County), Tri-Valley LSD (Muskingum County), Coventry LSD (Summit County), Marlington LSD (Stark County), Hubbard EVSD (Trumbull County), Geneva Area CSD (Ashtabula County), Buckeye LSD (Ashtabula County), and Grand Valley LSD (Ashtabula County). These districts were selected based upon demographic and operational data, and input from the District. External organizations and sources were also used to provide comparative information and benchmarks. They include the Government Finance Officers Association (GFOA), the State Employment Relations Board (SERB), the Ohio Department of Administrative Services (DAS), the Ohio Department of Education (ODE), the American Schools and Universities (AS&U), and the National Center for Education Statistics (NCES).

The performance audit process involved significant information sharing with MLSD, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Furthermore, status meetings were held during 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, MLSD 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 MLSD for its cooperation and assistance throughout this audit.

Conclusions and Key Recommendations

Each section of the audit report contains recommendations that are intended to provide MLSD 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.

Financial Systems

- Strengthen the process for preparing the financial forecast.
- Use **Table 1-4** to evaluate the effect of the recommendations presented in this performance audit.

Human Resources

- Reduce staffing levels by 2.0 office/clerical and 2.0 other certificated FTEs.
- Negotiate to reduce employee compensation.
- Negotiate to reduce healthcare costs.
- Develop strategies for reducing special education program costs.

Facilities

- Accurately capture time staff spends on each facility function.
- Develop an energy management program.

Transportation and Food Service

- Ensure transportation data is accurate.
- Improve transportation efficiency and reduce costs.
- Increase food service program participation rates.
- Review other possible service delivery alternatives for the food service program.

Summary of Financial Implications

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

Summary of Performance Audit Recommendations

Recommendation	Impact
R2.1 Reduce staffing levels by 2.0 office/clerical and 2.0 other certificated FTEs.	$158,000
R2.3 Negotiate to reduce healthcare costs.	$357,000
R2.4 Develop strategies for reducing special education program costs.	$340,000
R2.6 Reduce workers compensation costs.	$12,400
R3.2 Develop energy management program.	$68,000
R4.2 Improve transportation efficiency and reduce costs.	$273,000
R4.5 and R4.6 Increase participation rates and review other possible service delivery alternatives for the food service program.	$120,000
Total Cost Savings from Performance Audit Recommendations:	**$1,328,400**

Audit Objectives

The following detailed audit objectives were used to conduct the performance audit of MLSD. According to Government Auditing Standards, "the objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria."

Financial Systems

- How do the District's revenues and expenditures per student compare with the peer districts?
- Are the District's financial reporting, strategic planning, budgetary, and payroll processes consistent with leading practices?
- Does the District maintain an effective process for preparing financial forecasts?
- Are the District's financial management policies updated and consistent with leading practices?
- Does the District use technology in an efficient manner?

Human Resources

- Is the District's staffing efficient compared to peers?
- Are the District's salaries comparable to peers?
- Are the District's health insurance costs comparable to leading practices?
- Are the District's collective bargaining agreements consistent with leading practices and/or peers?
- Is the District's special education program cost-effective?
- Is the District's workers' compensation program consistent with leading practices?
- Does the District effectively manage sick leave usage?
- Is the District's process for updating job descriptions consistent with leading practices?
- Does the District have a staffing plan that is consistent with leading practices?

Facilities

- Is the District's custodial, maintenance and grounds staffing efficient?
- Are District's energy management practices consistent with leading practices?
- Does the District effectively manage its use of overtime?
- Does the District procure facility services and materials in a cost-effective manner?

- Does District have effective preventive maintenance and employee training in place to maintain buildings?
- Does the District make efficient use of technology?

Transportation and Food Service

- Does MLSD's transportation contract allow for efficient transportation services?
- Is the District's bus replacement and preventive maintenance planning consistent with leading practices?
- What is the financial status of the food service fund?
- Are MLSD's food service staffing levels and program participation rates consistent with the peers and/or leading practices?
- Does the District make efficient use of technology?
- Are District's practices for determining food service fees consistent with leading practices?
- Does the District procure food service supplies and materials in a cost-effective manner?
- Does District accurately capture all costs attributed to the food service program?
- Has the District reviewed alternatives for providing food services?

Financial Systems

Background

This section of the performance audit focuses on financial systems within the Madison Local School District (MLSD or the District). MLSD's operations were evaluated against information from relevant sources, such as the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA), the Ohio Revised Code (ORC), and selected peer districts.[2]

MLSD's Treasurer retired from public service during the course of this audit. MLSD subsequently hired a new Treasurer, who officially began serving in this capacity in August, 2011. When necessary, AOS makes the distinction between the two Treasurers in this report by referring to the retired Treasurer as the "former Treasurer."

Financial History and Condition

Table 1-1 presents the historical and projected revenues and expenditures from the forecast the former Treasurer prepared in May, 2011.

[2] See the **executive summary** for a list of peer districts and an explanation of the peer selection methodology. The peer average comprises eight school districts, unless noted otherwise.

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	$9,624	$9,346	$9,437	$9,152	$9,201	$9,113	$9,124	$9,111
Tangible Property Tax	580	323	117	3	0	0	0	0
Unrestricted Grants-in-Aid	14,491	14,371	13,435	13,182	12,249	11,744	12,629	13,180
Restricted Grants-in-Aid	215	107	63	64	64	64	64	64
Restricted Federal	0	0	905	1,416	354	0	0	0
Property Tax Allocation	1,696	1,992	2,241	2,347	2,346	2,333	2,205	2,101
Other Revenues	2,405	1,646	1,526	1,388	1,240	1,333	1,323	1,313
Total Operating Revenues	**$29,011**	**$27,785**	**$27,724**	**$27,552**	**$25,454**	**$24,587**	**$25,345**	**$25,769**
Salaries & Wages	$17,018	$15,781	$16,841	$16,024	$15,222	$15,454	$15,908	$16,153
Fringe Benefits	6,174	6,087	5,974	5,880	5,893	6,164	6,410	6,717
Purchased Services	3,415	5,060	5,054	5,372	5,238	5,401	5,078	4,998
Supplies, Materials & Textbooks	1,020	1,065	790	694	870	873	870	855
Capital Outlay	380	276	220	108	200	200	100	100
Debt Service	112	100	106	103	106	103	105	106
Other Expenditures	240	232	272	253	254	244	259	259
Total Operating Expenditures	**$28,359**	**$28,601**	**$29,257**	**$28,434**	**$27,783**	**$28,439**	**$28,730**	**$29,188**
Net Transfers/Advances	(104)	(115)	60	(278)	(167)	(167)	(167)	(167)
Other Financing Sources	39	7	6	0	0	0	0	0
Net Financing	**($65)**	**($108)**	**$66**	**($278)**	**($167)**	**($167)**	**($167)**	**($167)**
Result of Operations (Net)	**$587**	**($924)**	**($1,467)**	**($1,160)**	**($2,496)**	**($4,019)**	**($3,552)**	**($3,586)**
Beginning Cash Balance	3,481	4,069	3,145	1,679	518	(1,977)	(5,996)	(9,548)
Ending Cash Balance	**$4,069**	**$3,145**	**$1,679**	**$518**	**($1,977)**	**($5,996)**	**($9,548)**	**($13,133)**
Encumbrances	28	148	76	75	75	75	75	75
Textbook and Instructional Materials	695	575	814	0	0	0	0	0
Budget Reserve	120	120	120	0	0	0	0	0
Bus Services	0	30	0	0	0	0	0	0
Ending Fund Balance	**$3,226**	**$2,272**	**$669**	**$443**	**($2,052)**	**($6,071)**	**($9,623)**	**($13,208)**

Source: MLSD May 2011 five-year forecast
Note: Totals may vary due to rounding.

Table 1-1 shows that the District's ending fund balance declined significantly between FY 2007-08 and FY 2009-10, due to a decline in total revenues of approximately two percent annually during the three-year period while total expenditures increased approximately two percent annually. **Table 1-1** also shows that while MLSD is projected to end FY 2010-11 with a positive fund balance of approximately $443,000,[3] the District's financial condition is projected to decline annually thereafter, reaching a deficit of approximately $13.2 million in FY 2014-15. See **R1.1** for additional analysis of MLSD's five-year forecast.

Revenue and Expenditure Comparisons

Table 1-2 compares the District's revenues and expenditures to the peer average for FY 2009-10.

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

	MLSD	Peer Average
Local Revenue	$3,534	$3,484
State Revenue	$4,527	$4,287
Federal Revenue	$609	$712
Total Revenue	**$8,670**	**$8,484**
Employee Wages	$5,461	$5,105
Fringe Benefits	$1,930	$2,063
Purchased Services	$1,176	$773
Supplies & Materials	$450	$461
Capital Outlays	$186	$161
Other Objects	$94	$180
Total Expenditures	**$9,297**	**$8,743**

Source: ODE

Table 1-2 shows that MLSD operated with a structural deficit in FY 2009-10 when total expenditures exceeded revenues by $627 per student, or approximately seven percent of total revenues. **Table 1-2** also shows that the peers maintained structural deficits; however, the shortfall was much smaller at $259 per student, or approximately three percent of the total revenues. MLSD's higher expenditures are due to higher employee wages, purchased services, and capital outlays. Implementing **R2.1**, **R2.2**, **R2.4**, and **R4.2** would help limit future expenditures for employee wages and purchased services. The higher capital outlay expenditures are due to the District's use of non-General Fund resources to make the majority of its building repairs and equipment purchases. For example, the District spent approximately $611,000 on capital outlay in FY 2009-10, with $391,000 ($119 per student) coming from the Permanent Improvement Levy Fund, the IDEA Grant Fund, and the Title I Grant Fund. Because a majority of the District's capital outlay expenditures were from special use funds, this area was not

[3] The District concluded FY 2010-11 during the course of this audit. The actual ending fund balance for FY 2010-11 was $417,781.

reviewed further during this audit.

Table 1-3 shows MLSD's per pupil expenditures by function compared to the peer average for FY 2009-10, and includes references to applicable recommendations in the performance audit.

Table 1-3: FY 2009-10 Per Pupil Expenditures by Function

	MLSD	Peer Average	How Addressed in Report
Regular Instruction	$4,196	$3,951	**R2.1, R2.2, R2.3**
Special Instruction	$1,006	$830	**R2.2, R2.3, R2.4**
Vocational Education	$55	$167	N/A
Other Instruction	$0	$14	N/A
Pupil Support Services	$598	$367	**R2.1, R2.2, R2.3, R2.4**
Instructional Support Services	$133	$355	N/A
Fiscal Services	$177	$208	N/A
Plant Operation & Maintenance	$629	$822	**R3.5**
Pupil Transportation	$679	$581	**R4.2**
Central Administration Services	$1,361	$908	**R3.5**
Food Service Operations	$309	$369	N/A
Sports Oriented Activities	$118	$130	N/A
Other Extracurricular Activities	$36	$41	N/A
Total Expenditures per Pupil	**$9,297**	**$8,743**	

Source: ODE
Note 1: MLSD uses the administrative services function code to record utility expenditures, while the peers use the plant operation and maintenance function code. This difference contributes to the expenditure variances shown in **Table 2-3** and is addressed in **R3.5**.
Note 2: Based on the definitions of the function codes, **R2.1**, **R2.2** and **R2.4** can impact pupil support services. However, this depends upon what the District is actually including in these function codes.

Assessments Not Yielding a Recommendation

With the exception of linking the budget to a strategic plan (see **R1.2**), the assessment of MLSD's budgeting process did not warrant a recommendation. In short, the District has an effective budgeting process. For example, the District adopted its FY 2010-11 appropriation measure on September 21, 2010, well before the October 1 deadline stipulated by ORC § 5705.38. Likewise, the former Treasurer prepared a document for the Board that supplemented the appropriation measure and included narratives, charts, graphs, and tables to help explain the District's financial condition, significant assumptions, and key decisions impacting the budget. In reviewing the document, it is evident that key decisions reflect input from other administrators and the Board. Finally, the District did not receive any budgetary citations in its FY 2008-09 and FY 2009-10 financial audits, and was classified as a low risk auditee. This indicates that the District has effective controls for managing the budget once it has been adopted.

Recommendations

R1.1 Strengthen the process for preparing the financial forecast.

The District should adopt policies and procedures that cover the process for developing the financial forecast. Subsequently, the Board should require that the document include detailed information, such as explanations within the note disclosures. When developing future forecasts, the District should include estimates for base wage increases, unless the collective bargaining agreements specifically stipulate wage freezes.

MLSD does not have policies or procedures that outline the process for preparing the financial forecast, the frequency of updates, the roles of other administrators, or the level of note disclosures and supporting materials to be used in developing the forecast. In practice, the District primarily relies on the Treasurer to develop the forecast and determine the detailed assumptions, appropriate level of note disclosures, supporting documentation, and frequency of updates. AOS reviewed the District's assumptions, note disclosures, and supporting documentation for the real estate property tax, State funding (unrestricted grant-in-aid), personnel services, and employee benefits (retirement/fringe benefits) line-items shown in **Table 1-1**. A summary of issues that warrant additional review include the following:

- **Note Disclosures:** In general, the note disclosures provided as support for **Table 1-1** include some inconsistencies and are not sufficiently detailed to allow a user to easily understand the forecast. For example, the notes indicate that the State funding projection (unrestricted grants-in-aid) assumes that revenues will decline 10 percent annually beginning in FY 2011-12. However, an analysis of the forecast shows that State funding is projected to decline 7.0 percent in FY 2011-12, decline 4.0 percent in FY 2012-13, increase 8.0 percent in FY 2012-14, and increase 4.0 percent in FY 2014-15. Similarly, the projections show that expenditures for purchased services, supplies and materials, and capital outlay will all decrease in FY 2013-14 and FY 2014-15. However, the forecast notes do not include any stated assumptions for these line-items or explanations for how the reductions will be achieved.

- **State Funding:** In an effort to be conservative and reflect the uncertainties surrounding the State budget, the former Treasurer projected State funding to equal approximately $12.2 million in FY 2011-12. However, during the course of this audit, the State legislature passed H.B. 153, which established the State funding system for FY 2011-12. According to reports on ODE's website, MLSD's State funding will equal approximately $13.4 million in FY 2011-12. Although the State funding levels for FY 2012-13 through FY 2014-15 are unknown at this time, holding the projections fixed at the FY 2011-12 levels would still be conservative, but would have a cumulative impact of reducing the District's projected deficit in FY 2014-15 by approximately $3.6 million.

- **Salaries and Benefits:** The note disclosures state that the personnel services line-item is projected to decline substantially in FY 2011-12 due to the retirement and non-replacement of 15 employees. However, after this forecast was prepared, the District suspended the contracts of 10 additional teachers through a reduction-in-force. These suspensions will take place beginning in FY 2011-12, and are projected to reduce the District's FY 2014-15 deficit by approximately $2.2 million.

The forecast notes also state that no base wage increases are provided for the staff from FY 2011-12 through FY 2014-15. The District is currently negotiating new collective bargaining agreements (CBAs) with the certificated and classified staff. The prior CBAs provided both groups with annual base wage increases of three percent. As a result, the District's assumption of no base wage increases appears overly optimistic based on its recent history. However, **R2.2** in the **human resources** section shows that MLSD's salaries are generous compared to the peers and recommends that the District take action to address the higher salaries, which could include wage freezes for an extended period of time. Because any adjustments to the wage projection in **Table 1-1** would be offset by the projected financial implication from implementing **R2.2**, the revised forecast presented in **Table 1-4** (see **R1.7**) will not adjust the District's assumption for base wage increases.

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, which includes related policies, procedures, methods, and practices. If a formal work program is used in place of a formal system, it should adequately define the procedures, methods, and practices to be employed. Additionally, this publication identifies numerous guidelines for preparing and reviewing financial forecasts.

R1.2 Develop a strategic plan.

MLSD should develop a comprehensive strategic plan that outlines its long-term vision for all operational and educational programs, and includes pertinent elements. Once developed, MLSD should link the strategic plan to the budget, the five-year financial forecast, and other related plans.

MLSD does not have a comprehensive strategic plan that guides long-term operations and spending decisions. *Recommended Practice 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 and goals. In addition, the focus of the strategic plan should be on aligning organizational resources to bridge the gap between present conditions and the envisioned future. GFOA recommends the following steps when developing a strategic plan:

- 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 every 1 to 3 years.

The lack of a strategic plan potentially hinders MLSD from effectively developing budgets and five-year forecasts, and evaluating the relationship between its spending decisions and program outcomes. This, in turn, increases the risk of ineffectively addressing District needs.

R1.3 Ensure updated policies cover pertinent areas.

MLSD should work with NEOLA to ensure that the forthcoming updated policies address recommendations from the Government Finance Officers Association (GFOA) and the Ohio Ethics Commission (OEC).

The Superintendent and former Treasurer both indicated that the District's policies have become outdated and do not reflect current operating practices. As a result, the District is currently reviewing and updating its policies, and making them available on-line through NEOLA, which is a company that helps school districts prepare policy and procedure manuals.

GFOA and OEC both have model policies that are designed to improve financial management and promote ethical behavior. Specifically, according to *Recommended Budget Practices: A Framework for Improving State and Local Government Budgeting* (GFOA, 1999), government agencies should adopt policies regarding the use of one-time revenues, contingency planning, fees and charges, balancing the operating budget, and the use of budget stabilization funds. Likewise, OEC has developed a *Model Ethics Policy* that addressing numerous areas, including the following:

- Soliciting or accepting employment with anyone doing business with the District;
- Receiving payment for matters before any board, commission, or other body of the District;
- Soliciting or accepting honoraria;
- Representing any person during public service, and for one year after leaving service, with respect to a matter in which the official personally participated while serving the District; and
- Using, or authorizing the use of, an employee's title, the name of the District, or the District's logo in a manner that suggests impropriety, favoritism, or bias by the official or employee.

R1.4 Expand financial reporting and interaction with the community.

The District should begin preparing its annual financial statements in accordance with generally accepted accounting principles (GAAP) in order to comply with State law. Additionally, the District should endeavor to provide more financial information to its stakeholders. This could include expanding the number of reports and tools that are available through the website, conducting periodic community forums to discuss significant issues, preparing a comprehensive annual financial report (CAFR), and preparing a popular annual financial report (PAFR) or its equivalent.

MLSD has limited mechanisms in place to communicate financial information to stakeholders. This is explained by the following summary:

- **Financial Reporting:** MLSD was cited in the FY 2009-10 financial audit for noncompliance with OAC § 117-2-03, which requires the District to prepare its annual financial report in accordance with GAAP. The District chose to prepare its financial statements and notes following the cash basis of accounting rather than the accrual basis required by GAAP in an effort to avoid the additional preparation costs. As a result, the financial statements omit the District's assets, liabilities, fund equities, and other required disclosures. Pursuant to ORC § 117.38, the District may be fined and subject to various other remedies for its failure to file the required financial report. The District received the same citation during the FY 2007-08 and FY 2008-09 financial audits.

- **Supplemental Reporting:** The District does not develop a CAFR, PAFR, or equivalent documents. Developing such reports is hindered by MLSD's noncompliance with GAAP. *Recommended Practices: Government Accounting, Auditing, and Financial Reporting Practices* (GFOA, 2006) indicates that state and local governments should not be satisfied with only issuing basic financial statements required by GAAP, but should instead publish a CAFR. The CAFR would expand the reporting model to include information on MLSD's operating environment, explanations for past spending decisions and future commitments, as well as budgetary statements and statistical information. Likewise, *Recommended Practices: Preparing Popular Reports* (GFOA, 2006) encourages governments to supplement their annual financial reports, with simpler, "popular" annual financial reports designed to assist those who need a less detailed overview of a government's financial activities. 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.

- **Website:** The District's website provides the following financial information: the FY 2010-11 operating budget, the most recent five-year forecast, an analysis of MLSD's financial condition from FY 2005-06 through FY 2009-10, and a summary of FY 2009-10 operations. Buckeye LSD's (Medina County) website includes similar information as

MLSD, but also includes links to the most recent CAFR, financial audit results, and a PowerPoint presentation where the Treasurer explains the key points from the five-year forecast. Similarly, Northridge LSD's (Licking County) website includes additional financial information explaining the forecast, budget reductions, local tax comparisons, and State funding; spending comparisons with other area districts; current financial outlays; as well as a published video in which the Treasurer explains the District's financial forecast and overall financial condition. Similarly, Parma City School District (Cuyahoga County) includes links to past financial and performance audits, prior year CAFRs, a purchase order search tool, the five-year forecast and assumptions, and FY 2010-11 revenue and expenditure summaries.

- **Community Forums:** Although the Superintendent indicated that he is active in the community, MLSD does not hold community forums as a means to discuss pertinent issues with stakeholders. Northridge LSD holds periodic town hall meetings to discuss significant financial and operating issues. Northridge LSD also makes the PowerPoint presentations from these meetings available on its website.

R1.5 Update technology plan and review membership with the local information technology center.

The District should update its technology plan to address the long-term technology needs of its operating units and support staff. The Treasurer should also move forward with plans to review the costs and benefits of joining the local information technology center (ITC). In doing so, the District should weigh any additional costs from joining the ITC against the potential operating benefits, such as improved functionality of the software; the ability to receive regular software updates and technical support; the time saved by improving the reporting capabilities; and potential efficiencies that can be achieved from implementing electronic payroll reporting (see R1.6), and e-procurement.

The District has a three-year technology plan that was prepared in 2009. The technology plan was designed to meet ODE requirements and focuses on the use of technology to improve academic instruction. However, the technology plan does not address the needs of MLSD's operating units or support staff, and MLSD does not have any other type of plan that addresses needs in these areas. In addition, the District does not use the local ITC to procure its financial accounting and reporting software. Rather, the District uses a stand-alone system that has become antiquated and has limited reporting capabilities. For example, the Treasurer indicated that the system does not support electronic pay stubs and cannot easily generate reports required by ODE and the financial auditors. The Treasurer indicated that he intends to review the costs and benefits associated with joining the local ITC.

According to *Best Financial Management Practices, Administrative and Instructional Technology* (Florida Legislature's Office of Program Policy Analysis & Government

Accountability, 2002), school districts should have a Board approved comprehensive technology plan that provides direction for administrative and instructional technology decision making.

The Lake Geauga Computer Association (LGCA) is one of 23 ITCs licensed by ODE to provide various technology services to member school districts. According to its website, LGCA was designed to serve school districts in Lake and Geauga County, eastern Cuyahoga County and Medina County with the premise that sharing resources between members provides cost-effective solutions to school district technology needs. LGCA advertises that its fiscal services include access to the State's uniform staff payroll system, uniform school accounting system, equipment inventory system, electronic payroll reporting (includes access to electronic paystubs), and e-procurement. LGCA also advertises that it provides access and support for all reports required by the State along with custom report generation tools.

R1.6 Require that all staff receive electronic pay stubs.

If the District decides to join LGCA (see R1.5), it should subsequently require all staff to receive electronic pay stubs. If the District decides to maintain the current system, it should determine whether cost-effective improvements can be made to enable the use of electronic pay stubs.

To process payroll, the District uses exception based reporting and requires the use of direct deposit. However, the District does not allow employees to receive electronic pay stubs, which increases its supply and material costs and results in an inefficient use of payroll staff's time due to printing, preparing, and distributing paper remittances. The Treasurer indicated that the District's current accounting system is not able to generate electronic pay stubs.

Accounting Best Practices (Stephen M. Bragg, 2007) states that employers and employees can benefit financially 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 paystubs 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. Further, implementing electronic paystubs 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 approximately $1.20 per statement.

Financial Implication: Based on the current staffing levels, it is estimated that the District could save approximately $9,400 by requiring electronic pay stubs. However, this savings will not be included in the recovery plan (see **Table 1-4**) as it may be necessary to cover other costs, such as joining the ITC (see **R1.5**).

R1.7 Evaluate the effect of the recommendations presented in this performance audit.

MLSD should analyze 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, such as considering the feasibility of partnering with other districts to share services. Likewise, the District should further review staffing levels relative to State minimum requirements to identify potential reductions, including regular education teacher and education service personnel positions.[4] Furthermore, the Treasurer should update Table 1-4 on an on-going basis to reflect changes, monitor revenue and expenditure activities, and review performance against projected figures. Lastly, MLSD should regularly discuss options for reducing costs/or increasing revenues with stakeholders to help determine long-term strategies for addressing the projected deficits.

Table 1-4 presents MLSD's financial condition after considering the impact of the performance audit recommendations and the timing differences for the State funding and personnel services projections identified in **R1.1**.

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

	Forecast 2011-12	**Forecast 2012-13**	**Forecast 2013-14**	**Forecast 2014-15**
Ending Unreserved Fund Balance from Table 1-1	($2,052)	($6,071)	($9,623)	($13,209)
Plus:				
Cumulative Impact of Forecast Adjustments (**R1.1**)	1,520	3,826	5,106	5,835
Cumulative Impact of Performance Audit Recommendations (**R2.1**, **R2.3**, **R2.4**, **R2.6**, **R3.2**, **R3.3**, **R4.1, R4.2, R4.6**)	1,054	2,131	3,504	4,900
Revised Unreserved Fund Balance	**$522**	**($115)**	**($1,014)**	**($2,474)**

Source: MLSD May 2011 five-year forecast, with adjustments to reflect performance audit recommendations.

Based on **Table 1-4**, the District will have to make difficult management decisions in order to improve its financial condition. Specifically, even when the financial implications for all performance audit recommendations are included, **Table 1-4** shows that the District is projected to experience a negative fund balance each year from FY 2012-13 through FY 2014-15. As a result, MLSD will need revenue increases and/or other expenditure reductions to resolve the projected financial difficulties.

[4] Ohio Administrative Code section 3301-35-05 addresses minimum staffing requirements for regular education teachers and education service personnel.

The forecast in **Table 1-4** will depend, in part, on the attainment of the District's projections. Therefore, monitoring the attainment of the projections and updating the forecast as necessary will ensure the District bases future decisions on the most current information. The projections will also depend upon timing related to implementing the performance audit recommendations. **Table 1-4** assumes the District will implement the performance audit recommendations in FY 2011-12 or generate the equivalent savings through other efforts, with the exception of **R4.2** which is included only in the last two years (see the **transportation and food service** section). Additionally, the projections will depend upon the actual impact of the performance audit recommendations. For instance, if the District was able to reduce special education costs per student to the peer average without impacting the other performance audit recommendations, it would achieve positive ending fund balances in each year.

Human Resources

Background

This section of the performance audit focuses on Madison Local School District's (MLSD or the District) human resource operations. Throughout this section, MLSD's operations are evaluated against select peer school districts, [5] and leading or recommended practices and operational standards from applicable sources, including the Ohio Revised Code (ORC), the Ohio Department of Administrative Services (ODAS), the State Employment Relations Board (SERB), and the Society for Human Resource Management (SHRM).

Organizational Structure

MLSD does not have a separate department dedicated to human resource functions. Instead, the Superintendent, Assistant Superintendent, and Treasurer are jointly responsible for completing the majority of the District's human resource functions. Specifically, the Superintendent and Assistant Superintendent are responsible for coordinating the activities and programs for the recruitment and selection of employees, maintaining employee personnel files, monitoring compliance with employment standards, administering the collective bargaining agreements, maintaining job descriptions, and overseeing the District's compliance with Educational Management Information System (EMIS) reporting requirements. The Treasurer's Office is responsible for processing payroll, and administering the workers compensation and employee benefit programs.

Staffing

Table 2-1 compares MLSD's full-time equivalent (FTE) staffing levels on a per 1,000 student basis with the peer average for FY 2010-11.

[5] See the **executive summary** for a list of peer districts and an explanation of the peer selection methodology. The peer average comprises eight school districts, unless noted otherwise.

Table 2-1: Staffing Level Comparison (FTEs per 1,000 Students)

	MLSD	Peer Average
Administrative	4.8	5.8
Office/Clerical	7.1	6.4
Teaching	54.0	52.1
Education Service Personnel (ESP)	6.1	6.8
Educational Support	0.0	5.8
Other Certificated	1.8	0.9
Non-Certificated Classroom Support	7.6	6.0
Other Technical/Professional Staff	0.7	1.4
Other Student Services	1.8	1.5
Operations	16.3	26.8
Total Staff	**100.3**	**113.4**

Source: FY 2010-11 EMIS data submitted to ODE.
Note: Students include those receiving educational services from the district and excludes the percent of time students are receiving educational services outside the district.

Table 2-1 shows that MLSD's total staffing levels per 1,000 students (100.3) are lower than the peer average (113.4). The lower staffing levels are primarily due to contracting for busing services (impacts operations staff in **Table 2-1**) and not employing any educational support staff (supplemental service teachers-special education, remedial specialists, or tutors/small group instructors). See **R2.1** for additional analysis of the District's staffing levels.

Salaries

Table 2-2 compares the District's average salary cost with the peer average for FY 2010-11. Beginning wage rates, years of service, negotiated salary schedules, and education or skill level attained impact average salaries.

Table 2-2: Average Salary Comparison

	MLSD	Peer Average
Administrative	$71,496	$73,734
Office/Clerical	$34,236	$29,002
Teaching	$59,411	$54,892
Education Service Personnel (ESP)	$58,036	$54,956
Educational Support	$0	$41,315
Other Certificated	$49,050	$37,810
Non-Certificated Classroom Support	$19,024	$15,490
Other Technical/Professional Staff	$27,753	$20,052
Other Student Services	$56,166	$38,679
Operations	$26,812	$23,338
Total Staff	**$49,302**	**$43,438**

Source: FY 2010-11 EMIS data submitted to ODE.

Table 2-2 shows that in total, MLSD pays an average salary of $49,302 while the peer average is $43,438. See **R2.2** for reviews of MLSD's certificated, custodian, and food service salary schedules.

Negotiated Agreements

The District has collective bargaining agreements (CBA) with the Madison Education Association (MEA) and the Ohio Association of Public School Employees (OAPSE). The MEA contract covers all certificated/licensed personnel employed by the Board, except the Superintendent and other individuals receiving administrative contracts. The OAPSE contract covers all regular full-time and part-time classified positions, including monitors, attendants, food service, custodians, maintenance, and secretarial/clerical.

Assessments Not Yielding a Recommendation

The assessment of EMIS reporting did not yield a recommendation. Specifically, to determine the reliability of MLSD's EMIS information, AOS tested certain data fields for the District's certificated and classified staff against current payroll reports. The majority of the District's EMIS information was adequately supported by payroll records with only a few minor variances, which were subsequently explained by the District's EMIS Coordinator. As a result, AOS concluded that MLSD's EMIS information is reliable for use in this audit and for the District's decision-making purposes. Additionally, the EMIS Coordinator has extensive experience preparing EMIS information, attends regular training, and has achieved the Master Certified EMIS Professional designation sponsored by the Ohio Association of EMIS Professionals

Recommendations

R2.1 Reduce staffing levels by 2.0 office/clerical and 2.0 other certificated FTEs.

The District should reduce staffing levels by at least 2.0 office/clerical FTEs. Likewise, MLSD should eliminate 2.0 other certificated FTEs, but ensure that doing so would not negatively impact educational outcomes.

Table 2-1 shows that MLSD's staffing levels exceed the peer average in the following areas:

- **Office/Clerical: Table 2-1** shows that MLSD employs 7.1 office/clerical FTEs per 1,000 students while the peer average is 6.4. In addition, MLSD's office/clerical employees provide support to 13.1 employees per FTE while the peer average is 17.0. The District would need to reduce approximately 2.0 office/clerical FTEs to achieve the peer average of 6.4 FTEs per 1,000 students. The District would need to reduce approximately 5.0 FTEs to achieve the peer average of 17.0 employees supported per office/clerical FTE.

- **Teaching: Table 2-1** shows that MLSD employs 54.0 teaching FTEs per 1,000 students while the peer average is 52.1. Furthermore, the District maintains a regular education student to regular education teacher ratio of 19.8:1 while the peer average is 21.4:1. The District would need to reduce approximately 6.0 FTEs to achieve the peer average of 52.1 FTEs per 1,000 students or approximately 11.0 regular teacher FTEs to achieve the peer average of 21.4 regular education students per regular education teacher. However, during the course of this audit, the District made staffing changes that will result in a reduction of 25.0 teaching FTEs prior to the start of FY 2011-12. The Assistant Superintendent indicated that the majority of these positions will not be replaced due to the District's financial condition.

- **Other Certificated: Table 2-1** shows that MLSD employs 1.8 other certificated staff on a per 1,000 student basis while the peer average is 0.9. For MLSD, this classification consists of 1.0 curriculum specialist and 5.0 unclassified other professional staff. The District would need to reduce approximately 3.0 FTEs to achieve the peer average of 0.9 FTEs per 1,000 students. However, during the course of this audit, the District made staffing changes that will result in a reduction of 1.0 FTE prior to the start of FY 2011-12, leaving a potential reduction of 2.0 additional FTEs. Based on the District's EMIS coding, the 5.0 FTEs classified as other professional staff are funded through General Fund resources. Furthermore, 3.0 of the FTEs are classified as being associated with the general education program, while the remaining 2.0 were not given a job assignment within EMIS.

- **Non-Certificated Classroom Support: Table 2-1** shows that MLSD employs 7.6 non-certificated classroom support staff on a per 1,000 student basis while the peer average is 6.0. For MLSD, this classification consists of 24.7 teaching aide FTEs. Approximately 22.0 of these are classified as being associated with the special education program. See **R2.4** for additional analysis of the special education program.

- **Other Student Services: Table 2-1** shows that MLSD employs 1.8 other student services staff on a per 1,000 student basis while the peer average is 1.5. For MLSD this classification consists of 2.0 psychologists and 4.0 speech and language therapists. The District would need to reduce approximately 1.0 FTE to achieve the peer average of 1.5 FTEs per 1,000 students. However, during the course of the audit, the District made staffing changes that will result in a reduction of 1.0 speech and language therapist FTE prior to the start of FY 2011-12.

The abovementioned analyses address MLSD's staffing variances under the current building configurations and enrollment. The **facilities** section of this performance audit shows that the District is working with the Ohio Schools Facilities Commission to re-configure the buildings and that enrollment has ranged from approximately 3,500 to 3,650 students the last four years (FY 2007-08 to FY 2010-11). In particular, enrollment declined by 3.0 percent in FY 2010-11, which represents the District's lowest enrollment figure from FY 2007-08 to FY 2010-11. The new building configurations and/or significant changes in future enrollment may necessitate that MLSD modify its staffing levels from those identified in this performance audit. Therefore, regularly monitoring the enrollment trends, changes in building configurations, and educational outcomes, and incorporating them into a staffing plan will help ensure that the District maintains appropriate staffing levels in the future (see **R2.8**)

Financial Implication: By eliminating 2.0 office/clerical FTEs and 2.0 other certificated staff FTEs, MLSD would save approximately $158,000 in salaries and benefit costs. The estimated savings are based on the lowest salaries for each group and the ratio of District-wide benefits to salaries for FY 2009-10.

R2.2 Negotiate to reduce employee compensation.

Subject to negotiations, the District should adopt strategies to bring its compensation for certificated and classified staff more in line with its peers. These strategies could include following through with plans to negotiate base wage freezes for an extended period of time, reducing or eliminating certain step increases, and/or revising the salary schedules to include fewer steps and lower rates of pay.

Based on the average salary comparisons in **Table 2-2**, AOS compared MLSD's salary schedules that also reflect longevity pay for certificated staff, custodial staff, and food service staff to those in place at Ashtabula Area City School District (Ashtabula County), Buckeye

Local School District (Ashtabula County), Chardon Local School District (Geauga County), and Riverside Local School District (Lake County). These Districts were chosen based on their proximity to MLSD, and similar enrollment and effective years for their collective bargaining agreements (FY 2009-10). A summary of the comparisons includes the following:

- **Certificated Staff:** A certificated MLSD employee with a master's degree will earn a total of $1,976,887 over a 30 year career while the peer average is $1,799,719. Additionally, the District's salary is higher at each step than the respective peer averages. Likewise, the Ohio Education Association completed a salary survey of certificated staff in FY 2008-09. The results of the survey show that MLSD's beginning and ending salaries for a teacher with a bachelors degree was $34,975 and $58,583, respectively. By comparison, the average of 153 school districts located in Cuyahoga, Erie, Huron, Lake, Lorain, Mahoning, Portage, Summit, and Trumbull counties for the same employee group was $33,305 and $56,154, respectively. Likewise, MLSD's beginning and ending salaries for a teacher with a master's degree was $38,297 and $67,501, respectively. The 153 school district average was $36,884 and $64,985, respectively.

- **Custodial Employees:** MLSD's custodial employees earn $1,231,644 over a 30 year career while the peer average is $1,070,860. This variance is due to MLSD's hourly pay rates and the length of the salary schedule. MLSD's custodial salary schedule has 17 steps spread over 27 years. By comparison, Riverside Local School District has 13 steps spread over 23 years, while the remaining three peers each have 5 to 8 steps. Of these three peers, the longest amount of time to attain the maximum salary is after completing seven years of service, much lower than MLSD. These comparisons also show that while the peer average salaries are higher during the early portion of employment, the length of the District's salary schedule contributes to its custodial employees exceeding the peer average salaries at each step, beginning with step 4.

- **Food Service:** MLSD's food service employees earn $490,887 over the course of 30 years, assuming the employee works 1,040 hours per year. By comparison, the peer average is $430,376. Similar to the custodial staff, this variance is due to MLSD's hourly pay rates and the length of the salary schedule. MLSD's food service salary schedule has 16 steps spread over 22 years. The abovementioned salary schedules for the peers' custodial employees contain the same number of steps/maximum salary attainment as the peers' food service employees. As a result, MLSD's salaries for food service staff are higher than the peer averages beginning with step 2.

The District is currently negotiating new CBAs with the certificated and classified staff. The prior CBAs provided certificated and classified staff with annual base wage increases of 3 percent, respectively. However, the Treasurer's most recent five-year forecast projects no base wage increases through FY 2014-15, but does include annual salary schedule step increases ranging from 1.7 to 2.3 percent.

Financial Implication: Taking measures to reduce salary levels would generate cost savings. However, because the Treasurer's forecast excludes base wage increases, cost savings were not estimated for this analysis.

R2.3 Negotiate to reduce healthcare costs.

The District should negotiate to only offer the Plan B PPO option, increase the employee contributions to 15 percent of the premium costs, and increase the hour threshold for receiving full health benefits (e.g., to 6 hours per day). If the District chooses to provide insurance benefits to staff working less than the threshold, it should negotiate to prorate the employee contributions based on the actual hours worked. Prior to making any changes, the District should review the Patient Protection and Affordable Care Act (PPACA) to ensure that intended results will be achievable under the new legislation.

MLSD uses its membership in the Lake County Schools Council Health Care Benefits Program to procure medical, prescription, vision, dental, and life insurance benefits for its employees. For healthcare, MLSD offers three PPO plans (Plan A, Plan B, and Plan C). However, because of coverage levels, the majority of the employees are enrolled in Plan B. Specifically, of the 277 employees enrolled in MLSD's healthcare program in FY 2010-11, only 69 were enrolled in Plan A or Plan C. **Table 2-3** compares MLSD's health, dental, vision, and life insurance premiums to the 2010 SERB survey. Premium costs reported by SERB have been adjusted for inflation to provide a reliable comparison to MLSD's FY 2010-11 premiums.

Table 2-3: Insurance Premium Comparison

	Madison LSD	SERB
Health Insurance		
Plan A - Single	$368.06	$491.40
Plan A - Family	$938.50	$1,234.80
Plan B - Single	$416.92	$491.40
Plan B - Family	$1,063.10	$1,234.80
Plan C - Single	$455.76	$491.40
Plan C - Family	$1,162.16	$1,234.80
Dental Insurance		
Dental - Single	$34.08	$49.28
Dental - Family	$86.86	$87.21
Vision Insurance		
Vision - Single	$7.28	$10.89
Vision - Family	$15.66	$21.89
Life Insurance		
Life Insurance – All Employees	$0.14 per thousand	$0.1892 per thousand [1]

Source: MLSD and SERB survey
Note: The SERB premiums represent the average premium paid by school districts and education service centers. The average premium for respondents with a PPO plan was $491.40 for single and $1,265.25 for family coverage.
[1] This is taken from the 2004 SERB report (not adjusted), which is the last time SERB reported life insurance data.

Table 2-3 shows that MLSD's healthcare, dental, vision, and life insurance premiums are all lower than the SERB survey averages under all plan types. Despite the lower premiums, the District can still improve the cost effectiveness of its health insurance program by addressing the following:

- **Participation:** MLSD's classified CBA stipulates that an employee only needs to work 4 hours or more per day to receive full health care benefits. MLSD's certificated CBA does not include an hour threshold, stating that "…the Board shall provide its current single and family health insurance coverage of all teachers for hospitalization, major medical, dental and eye care insurance coverage." Furthermore, neither CBA has provisions to offer pro-rated benefits to part-time staff. Collectively, these provisions negatively impact MLSD's total insurance costs by requiring that the District insure more employees at full coverage. In contrast, the Geneva Area City School District provides full healthcare benefits to classified staff working 6 hours or more per day and to certificated staff working 7 hours or more per day. The Geneva Area City School District also has provisions in both CBAs to provide pro-rated benefits to part-time staff. These provisions require part-time employees to contribute varying percentages of the premiums based on the actual hours worked.

- **Plan Options:** MLSD's certificated and classified CBAs stipulate that the Board will pay any employee taking Plan A $125 annually for single coverage and $250 annually for family coverage; Plan B is provided at no additional cost to the employee or the Board; and Plan C requires that employees contribute $40 per month for single coverage and $80 per month for family coverage. Despite the annual bonus payments, there was only 1 employee enrolled in Plan A during FY 2010-11. Additionally, although the Plan C single contributions ($40.00) are sufficient to cover the cost difference ($38.84) between Plan B and Plan C, the family plan contributions are not ($80.00 compared to $99.06). Based on the FY 2010-11 enrollments of 9 single plans and 59 family plans, the District is losing approximately $1,100 a month by offering Plan C.

- **Employee Premium Contributions:** The certificated and classified CBAs both identify Plan B as the base plan for all employees, stipulating that single/family coverage will be provided at no cost to the employee. As a result of this provision, the majority of the District's employees (207) are not required to contribute anything towards the health insurance premium costs. By comparison, the SERB survey reports that the average employee contribution toward single plan premium costs is 11.1 percent while the family plan contribution rate is 12.0 percent. Likewise, the Kaiser survey reports that the average single and family plan contribution rates for employers offering a PPO plan are 19 percent and 28 percent, respectively.

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, grandfathered plans will lose their grandfathered status if they choose to make significant changes that reduce benefits or increase costs to consumers. For example, 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). Healthcare.gov also 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. 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, 63 percent of respondents indicated that it would be more cost effective to make changes and lose grandfathered status. In addition, organizations that employ fewer than 500 employees predict that costs will increase by 3.0 percent in 2011 because of PPACA provisions. Reviewing the PPACA legislation before enacting significant changes to its healthcare program will ensure that MLSD achieves intended results.

Financial Implication: The District could achieve a projected savings of approximately $402,000 by only offering Plan B and increasing the employee contributions to 15 percent. The savings would decline to approximately $396,000 if the District implements the staffing reductions identified in this performance audit. The District could experience additional savings if it changes the hour threshold for participating in the health benefits program. Conversely, depending upon the actions implemented by MLSD and the interpretation of the requirements in PPACA, the District could be subject to additional costs under PPACA. Although it is difficult to precisely quantify these additional costs, this financial implication will be lowered by 10 percent, to $357,000, in an effort to account for the potential additional costs. Based on the aforementioned information from USI Insurance and Mercer, this represents a conservative estimate.

R2.4 Develop strategies for reducing special education program costs.

The District should conduct a comprehensive review of its special education program in order to develop strategies for reducing costs. In doing so, the District should follow through with its planned staffing reductions and review its teacher aide staffing levels. Additionally, MLSD should negotiate to lower the stipend for special needs students in regular classrooms and base the related payments on the impact on overall class sizes, which could impact the number of teaching aide positions. MLSD should subsequently review its special needs enrollment, operating costs, and academic results on an annual basis to determine other potential adjustments.

Table 1-3 in the **financial systems** section shows that MLSD spent $1,006 per student on special education in FY 2009-10, while the peer average was $830. However, these ratios include all students. In FY 2009-10, students with disabilities represented approximately 10 percent of MLSD's student population while the peer average was 14 percent. When the cost comparisons are adjusted to reflect the special needs population, MLSD spent $9,861 in special education expenditures per special education student while the peer average was $5,797. The Assistant Superintendent indicated that the higher costs are due to MLSD maintaining inefficient staffing levels in the past. The Assistant Superintendent also indicated that the District has taken some steps to reduce these costs, including not replacing 3 high school special education teachers that recently left through attrition and reducing 1.0 speech pathologist position to part-time status. The Assistant Superintendent further noted that the District will be reducing the work schedule for pre-kindergarten aides from 5 days a week at 6.5 hours a day to 4 days a week at 6 hours per day.

Although the District's recent actions will improve the cost-effectiveness of the special education program and it plans to address pre-kindergarten aide staffing levels, overall teaching aide staffing levels warrant additional review because they contribute to the large cost variance. Specifically, **Table 2-1** shows that MLSD employed 7.6 non-certificated classroom support FTEs per 1,000 students. For MLSD, teaching aides comprise this entire category, at approximately 25 FTEs. By comparison, the peers averaged 6.0 FTEs per 1,000 students in non-certificated classroom support. Furthermore, of MLSD's 25 teaching aide FTEs, approximately 22 are classified in EMIS as being associated with the special education program. The District would need to eliminate approximately 5.0 FTEs to achieve the peer average of 6.0 FTEs per 1,000 students.

MLSD's certificated CBA contains provisions that can impact teaching aide staffing levels. Specifically, the CBA states that "…a regular classroom teacher who is assigned more than four students with disabilities without the assistance of another teacher or an assistant shall be eligible for the stipend in section 4A of this article." Section 4A of the CBA states that "…the Board will pay a stipend of $400 per excess student per grading period to such teachers if the total classroom enrollment includes excess students after three weeks following their placement in the class." This stipend would equate to $1,600 per student on an annual basis.

The certificated CBAs at Geneva Area City School District (Geneva Area CSD) and Grand Valley Local School District (Grand Valley LSD) provide lower class size stipends and base the related payments on exceeding overall class sizes rather than solely on the number of special needs students like MLSD. Specifically, Geneva Area CSD's CBA states that special needs students with an individualized education plan (IEP), that do not have an aide required by the IEP and who are placed in the regular education classroom at least 50 percent of the student day, shall be counted as 2 students. For classes which exceed the maximum class size load (25 for K-5 and 28 for 4-6) for more than 10 consecutive student days, the teacher shall be paid $8.36 per student per day ($1,530 annually based on 183 contract days). Grand Valley LSD's certificated CBA states that "all identified special needs students, grades K-4 on a current IEP, included in a regular education classroom on a continuing basis, shall be counted as the equivalent of 1.5 regular education students for the purpose of class size calculations." The CBA goes on to state that the teacher will be paid $50.00 per semester for every student over the maximum class size ($200 annually), which is defined as 25 students in grades K-4.

Financial Implication: If MLSD reduced its cost per special education student to the peer average, it would realize an annual savings of $1.4 million. However, it may be difficult for the District to immediately achieve this type of savings, based on student needs. Additionally, the District's recent actions and the other recommendations in this performance audit will impact future special education costs (e.g., **R2.3**). As a result, the estimated savings is conservatively projected to be $340,000, or 25 percent of the expenditure variance compared to the peer average.

R2.5 Negotiate to reduce number of holidays and vacation accrual rates.

The District should negotiate to reduce the number of holidays and vacation accrual rates to be more comparable to the peers or ORC minimum requirements.

In addition to salary schedules (**R2.2**), health benefits (**R2.3**), special education class sizes (**R2.4**), and sick leave management (**R2.7**) being generous and/or impacting District management, a review of the MEA and OAPSE CBAs found the following provisions as being relatively generous:

- **Holidays:** According to ORC § 3319.087, 11 and 12 month employees are entitled to a minimum of 7 holidays and 9 and 10 month employees are entitled to 6 holidays. MLSD's 12-month classified employees receive 12 holidays while other classified positions receive 8 holidays. By comparison, 12-month employees at Geneva Area CSD and Grand Valley LSD receive 11 holidays while Buckeye LSD employees receive 10 holidays.

- **Vacation Leave:** The District's vacation accrual rates are generous compared to all three peers and the ORC minimum requirements. For example, MLSD's classified employees receive 2 weeks of vacation from 1 to 7 years of service, 3 weeks after 8 years of service, 4 weeks after 14 years of service, 5 weeks after 21 years of service, and 6 weeks after 25 years of service. By comparison, both Buckeye LSD and Geneva Area CSD cap their vacation accrual rates at 4 weeks after 13 and 15 years of service, respectively. Grand Valley LSD caps its vacation accrual rates at 5 weeks after 20 years of service. According to ORC § 3318.084, non-teaching school employees are only required to be provided with 2 weeks of vacation for 1 to 9 years of service, 3 weeks after 10 years of service, and 4 weeks after 20 years of service. Providing full-time employees with more vacation leave can reduce productivity since there are fewer workdays devoted to District operations. In addition, providing employees with more days off can potentially increase expenditures if substitutes and/or overtime are needed.

R2.6 Reduce workers compensation costs.

The District should work with the Ohio Bureau of Workers' Compensation (BWC) to identify strategies for reducing claims costs and limiting the potential for future workplace injuries. In particular, the District should implement the drug-free workplace program.

Ohio employers are required by law to have an active workers' compensation policy to insure employees against workplace injuries. BWC provides this coverage through annual premium charges. According to a representative from the BWC, the experience modifier (EM) represents a numerical measure of the effectiveness of an employer's workers' compensation program and is impacted by its claims history and workplace environment. BWC representatives also indicated that an EM less than 1.0 generally indicates that an entity has effectively managed its workers' compensation claims. MLSD's EM was 1.35 in 2009, 1.19 in 2010, and 1.09 in 2011. Although the 3 year trend shows that MLSD is making progress in managing its claims, the 2011 EM indicates that the District can make additional improvements.

To help manage workers' compensation costs, the District has maintained a membership in the Lake County Safety Council the last three years. According to the BWC, safety councils meet on a monthly basis to discuss workplace safety issues. Safety Council members can earn a 2 percent premium discount for attending a minimum of 10 meetings per year, and another 2 percent (4 percent total) for reducing their claims frequency or severity by 10 percent. However, due to the severity of its claims history, MLSD only received the 2 percent attendance discount for the 2009 rating year (impacts MLSD's premium rates in FY 2010-11). According to a BWC representative, the District does not participate in any other programs that could help reduce future claims. For example, the BWC representative suggested that implementing a drug-free workplace program would likely help MLSD reduce future claims and would provide an immediate premium discount ranging from 4 to 7 percent. Likewise, working with BWC's Division of Safety and Hygiene to evaluate its work environment, design programs, and provide employee training would help the District become more proactive in reducing the potential for future workplace injuries.

Financial Implication: The District could realize a total savings of $12,400 by implementing the drug-free workplace program and achieving the 2 percent claims bonus available through the Lake County Safety Council, assuming the District is able to reduce the severity of claims. These savings are based on the District's 2010 premium rates and a 4 percent savings related to the drug-free workplace program to be conservative.

R2.7 Improve sick leave management.

The District should improve oversight of sick leave use by regularly providing data to department heads for monitoring purposes. In addition, MLSD should negotiate changes to

both CBAs regarding physician statements, patterns of abuse, and disciplinary measures, that are more in line with Salem City School District (Salem CSD).

During the course of this audit, a District representative expressed concern about the potential for sick leave abuse among the employees. AOS subsequently reviewed sick leave use and found that the District used an average of 55 hours of sick leave per employee in FY 2009-10. By comparison, the Ohio Department of Administrative Services reports that the average State employee (58,265 total employees) used approximately 57 hours of sick leave in FY 2009-10. Although MLSD's employees used a similar amount of sick leave as the State average, the District increases its ability to further reduce sick leave use and limit the potential for future abuse by addressing the following:

- **CBA Provisions:** The District's classified CBA does not require an employee to submit a physician's statement justifying an absence until the employee has missed 7 or more consecutive days. The certificated CBA does not address physician statements or the extended use of sick leave, and neither CBA addresses patterns of abuse or potential disciplinary measures for misuse of sick leave. The classified CBA at Salem CSD stipulates that an employee may be required to provide a physician's statement attesting to their illness after using 4 consecutive sick days, and that employees exhibiting an ongoing pattern of absence due to sick leave may also be required to provide a statement attesting to their illness. Salem CSD's classified CBA also states that falsification of sick leave, or unauthorized absences, may be grounds for disciplinary action (suspension) up to and including termination.

- **Sick Leave Reporting:** Unless specifically requested, the District's managers do not receive any type of report showing sick leave usage by employee or department. This makes it difficult for the District to identify patterns of abuse, enforce the abovementioned CBA provisions, hold managers accountable for good attendance, and/or discipline employees for misuse of sick leave. According to *Absence Management: Strategies for Curbing Absenteeism in the Workplace* (International Public Management Association, 2003), supervisors should be held accountable for good attendance, and organizations should pay attention to absences and progressively discipline employees who fail to meet attendance standards.

R2.8 Develop a staffing plan.

MLSD should develop a comprehensive staffing plan that is tied to goals and objectives identified in the strategic plan (see R1.2), and addresses other relevant factors, such as enrollment trends and building reconfigurations (see R2.1).

MLSD does not have a formal staffing plan that uses objective workload measures to help ensure efficient and effective staffing levels, and link staffing decisions to long-term goals and objectives. In practice, the District uses judgments about classroom sizes, available financial resources, the collective bargaining agreements, and past practices to determine staffing levels. A documented staffing plan can assist the District with controlling staffing costs, meeting strategic goals and objectives, and complying with State and Federal regulations.

Strategic Staffing Plans (SHRM, June 2002) notes that high performing organizations use plans and a system to monitor and control the cost of engaging human capital. A strategic staffing plan forms an infrastructure to support effective decision-making in an organization. Likewise, the Lakota Local School District (Butler County) has established a staffing plan, which incorporates staffing allocation factors such as State and Federal regulations, and workload measures. In general, staffing benchmarks in this plan are calibrated to General Fund revenues, which help ensure a balanced budget.

Facilities

Background

This section of the performance audit focuses on Madison Local School District's (MLSD or the District) facility operations. Throughout this section, MLSD's operations are evaluated against selected peer school districts,[6] recommended or leading practices, and operational standards from applicable sources, including the American School and University Magazine (AS&U) and the National Center for Education Statistics (NCES).

Summary of Operations

MLSD is comprised of eight facilities consisting of three elementary schools (kindergarten through 5th grade), a middle school (6th grade through 8th grade), a high school (9th grade through 12th grade), a Board of Education building, a bus garage, and the Memorial Complex, which houses a pre-kindergarten program, a latchkey program, and an adult basic and literacy education (ABLE) program. The District's enrollment (headcount) has ranged from approximately 3,500 to 3,650 students the last four years (3,648 in FY 2007-08; 3,599 in FY 2008-09; 3,617 in 2009-10; and 3,508 in FY 2010-11).

MLSD has 25 employees that are responsible for completing the maintenance and operations functions (M&O) for the District's buildings and grounds. These functions include cleaning all areas of each school building, completing a variety of building maintenance tasks, and maintaining the exterior environment around the buildings and grounds. The day-to-day operations of MLSD's M&O function are overseen by the Facilities Manager. **Table 3-1** shows MLSD's staffing levels for the M&O function by position and based on functional responsibility.

Table 3-1: M&O Staffing Distribution

Function	Number of Positions	Number of Full-Time Equivalents
Custodians	21.0	20.7
Building Maintenance	4.0	3.2
Groundskeepers	0.0	1.1
Total	**25.0**	**25.0**

Source: MLSD

[6] See the **executive summary** for a list of peer districts and an explanation of the peer selection methodology. The peer average comprises eight school districts, unless noted otherwise.

MLSD classifies its M&O employees as either custodians or building maintenance. However, the Facilities Manager indicated that the both groups spend varying amounts of time completing groundskeeper duties. When the functional responsibilities of the M&O employees are considered based on the estimates from the Facilities Manager, **Table 3-1** shows that MLSD employs 20.7 custodial FTEs, 3.2 building maintenance FTEs, and 1.1 groundskeeper FTEs.

The District is currently working with the Ohio Schools Facilities Commission (OSFC) to re-configure its school buildings. Under the proposed building configurations, the District will close two elementary buildings and the Memorial Complex, and replace them with two newly constructed buildings. The original plans called for the OSFC project to be completed by 2013. However, in April 2011, the District was forced to delay the project due to Ohio Environmental Protection Agency concerns with the Village of Madison's ability to provide water and sewer services to the new buildings. The project timeframes were not yet revised during the fieldwork phase of this performance audit.

Key Statistics and Indicators

Table 3-2 compares key statistics for MLSD's M&O function to benchmarks from the *Planning Guide for Maintaining School Facilities* (NCES, 2003) and averages reported by the *Maintenance and Operations Cost Study* (AS&U).

Table 3-2: Key Statistics and Indicators

Total Number of Buildings	**8**
High Schools	1
Middle Schools	1
Elementary Schools	3
Other Buildings	3
Total Square Feet Maintained	**470,928**
Total Square Feet Cleaned	**470,928**
Total District Acreage	**114.1**
Total Square Feet Cleaned per FTE(20.7 FTEs)	**22,750**
NCES Planning Guide Benchmark[1] (Sq. Ft. per FTE)	*29,500*
Total Square Feet Maintained per FTE (3.2 FTEs)	**145,798**
AS&U Cost Survey National Median[2] (Sq. Ft. per FTE)	*95,000*
Total Acreage Maintained per FTE (1.1 FTEs)	**106.6**
AS&U Cost Survey National Median [2] (Acreage per FTE)	*40*

Source: MLSD, National Center for Education Statistics, and American School and University Magazine
[1] According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), 28,000 to 31,000 square feet per FTE custodian is the norm for most school facilities. The level of cleanliness that is achievable with this workload ratio is acceptable to most stakeholders and does not pose any health issues.
[2] The AS&U medians are based on a five-year average (FY 2004-05 to FY 2008-09) derived from the annual national surveys.

Table 3-2 shows that MLSD's custodial staff maintains fewer square feet per FTE than the NCES benchmark. Conversely, the District's maintenance and groundskeepers maintain more square feet and acreage per FTE than the respective benchmarks. See **R3.1** for additional analysis of staffing levels.

Financial Data

Table 3-3 compares MLSD's M&O expenditures per square foot to the peer average for FY 2009-10.

Table 3-3: Facilities Expenditures per Square Foot – FY 2009-10

Line-Item	MLSD	Peer Average	How Addressed in Report
Salaries and Wages	$2.61	$2.34	See **R2.2** and **R3.1**
Employee Benefits	$1.04	$1.07	N/A
Utilities	$1.47	$1.33	See **R3.2**
Purchased Services	$0.14	$0.67	N/A
Supplies and Materials	$0.34	$0.36	N/A
Capital Outlay	$0.28	$0.11	See explanation below
Other Objects	$0.00	$0.00	N/A
Total Expenditures per Square Foot	**$5.89**	**$5.87**	

Source: MLSD and the Ohio Department of Education

Table 3-3 shows that with the exception of salaries and wages, utilities, and capital outlay, MLSD's M&O expenditures per square foot were lower than the peer average in FY 2009-10. The higher capital outlay expenditures are partially due to the District using its 1.0 mill permanent improvement levy to make various building improvements and equipment replacements. Because the District will be re-configuring the buildings through the OSFC project and the permanent improvement levy represents a dedicated revenue source to be used for maintenance purposes, MLSD's capital outlay expenditures were not further reviewed during this audit.

It should be noted that the results of **Table 3-3** differ significantly from reports published by the Ohio Department of Education (ODE). Specifically, ODE reports that the District's M&O expenditures exceeded the peer average by approximately 34 percent in FY 2009-10. The difference between **Table 3-3** and ODE's report are due to large variances in the square footage figures and the District's coding for utility expenditures. AOS adjusted **Table 3-3** to reflect MLSD's current square footage and to include utility expenditures. See **R3.5** for additional analysis.

Assessments Not Yielding a Recommendation

The following assessments yielded no recommendations:

- **Overtime**: In FY 2009-10, MLSD spent approximately $61,000 on facility related overtime and temporary labor costs, which equated to 5.2 percent of the total salary and wage costs. By comparison, the peer average was 10.5 percent. To limit overtime costs, the District staggers employee schedules during the snow removal season, and the Facilities Manager performs most building checks and responds to emergency call-ins. Likewise, the Ohio Association of Public School Employees (OAPSE) CBA does not have provisions that create the need for excessive overtime.

- **Purchased Services and Building Supplies and Materials**: **Table 3-3** shows that the District spent less per square foot on facility related supplies and materials, and purchased services. To help control costs, the District centralizes all purchases through the Facilities Manager, who reviews each requisition for necessity and uses a combination of consortiums, competitive bids, and informal quotes to obtain reasonable prices. Likewise, the District uses its maintenance staff for the majority of building repairs, with contracted services being the last option.

Recommendations

R3.1 Accurately capture time staff spends on each facility function.

MLSD should review the various activities performed by facility staff to accurately capture the time for each function. Subsequently, the District should periodically compare its staffing levels and workload measures to industry benchmarks, and use this information for future decision-making.

Table 3-4 compares MLSD's estimated FTEs for each function to the number required to meet the benchmarks identified in **Table 3-2**.

Table 3-4: MLSD Staff Comparison to Industry Benchmarks

Function	Estimated FTEs	FTEs to Meet Benchmark	Difference
Custodial/Cleaning	20.7	16.0	4.7
Building Maintenance	3.2	5.0	(1.8)
Groundskeeping	1.1	2.8	(1.7)
Total	**25.0**	**23.8**	**1.2**

Source: MLSD, National Center for Education Statistics, and American School and University Magazine.

Table 3-4 shows that while MLSD's staffing in each classification varies compared to the respective benchmarks, the District employs approximately 1.2 more FTEs in total when all classifications are combined. This is further supported by **Table 3-3**, which shows that MLSD spent $2.61 per square foot on salaries and wages in FY 2009-10 while the peer average was $2.34.

Under the OSFC's proposed building configurations, the District will close three existing buildings and replace them with two newly constructed buildings. Due to the size of the new buildings, the District's total square footage will increase by a net of 31,733 square feet while the maintained acreage will increase by 35. Using the revised configurations, the total number of custodial and maintenance staff needed to meet the benchmarks shown in **Table 3-2** increases by 2.2 FTEs, equaling a total staff of approximately 26.0 FTEs. This indicates that the current staffing levels would be slightly lower than the benchmarks under the proposed building configurations.

MLSD does not formally track the actual time it takes staff to complete their various functional responsibilities. In addition, MLSD does not regularly use performance/workload measures to ensure appropriate staffing levels. To develop the staffing comparisons shown in **Tables 3-2** and **3-4**, the Facilities Manager had to estimate the amount of time custodial and maintenance employees spend on groundskeeping functions. Although the results of **Table 3-2** and **Table 3-4** show that MLSD's staffing levels are reasonable for the proposed building configurations, the lack of accurate employee time allocations and performance measurement increases the risk of making inefficient long-term staffing decisions. The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that "…school facilities maintenance affects the physical, educational, and financial foundation of the school organization and should, therefore, be a focus of both its day-to-day operations and long-range management priorities." The NCES goes on to state "…to assess staff productivity, the organization must establish performance standards and evaluation criteria."

R3.2 Develop energy management program.

The District should develop formal energy management and conservation policies, procedures, and guidelines. In doing so, the District should review and incorporate information from industry sources; distribute and discuss the policies, procedures and guidelines with the staff and students; and assign an employee to monitor energy consumption at each building.

To help control utility costs, the District issued House Bill 264 debt in 2002 that was used to replace a variety of boilers, windows, and doors with more energy efficient models. In addition, the District is currently using the Ohio Schools Council consortium to procure electric and natural gas at discounted rates, and is using central controls to manage building temperatures during non-peak hours. Finally, the District is scheduled to participate in a program administered by First Energy Solutions that provides rebates for retrofitting light fixtures with energy efficient lamps and ballasts. The District anticipates saving between $2,900 and $3,300 annually through this program beginning in FY 2011-12.

Despite these efforts, **Table 3-3** shows that the District spent $1.47 per square foot on utility costs in FY 2009-10 while the peer average was $1.33. The District does not have formal energy management policies, procedures, or guidelines for staff to follow. Furthermore, the District does not have a system in place for monitoring energy use at the buildings as a means to identify trends and possible waste. According to the *Planning Guide for Maintaining School Facilities* (NCES, 2003), the cost of energy is a major item in any school budget. Thus, school planners should embrace ideas that can lead to reduced energy costs. Establishing a more efficient energy management includes, among others, the following activities:

- Establish an energy policy with specific goals and objectives;
- Assign someone to be responsible for the District's energy management program and give this energy manager access to top-level administrators;
- Monitor each building's energy use;
- Reward buildings that decrease energy consumption; and
- Install energy-efficient equipment.

School Operations and Maintenance: Best Practices for Controlling Energy Costs (U.S. Department of Energy, 2004) indicates that there are different types of energy conservation programs. Energy tracking and accounting programs are comprehensive and require the collection, recording, and tracking of monthly energy costs in all school district facilities. The data allow staff to compare energy performance in all buildings and identify problems at individual facilities. On the other hand, voluntary energy awareness programs operate on the premise that increasing the general energy awareness of faculty, staff, and students will result in voluntary changes in behavior and reductions in energy. An example of this approach is affixing “turn the lights off” stickers to lighting switch plates.

By developing formal energy management policies, procedures, and guidelines, along with monitoring energy use at the buildings, the District would strengthen its ability to control and potentially reduce utility costs.

Financial Implication: The District could save approximately $68,000 annually by reducing its utility expenditures to the peer average.

R3.3 Purchase a computerized maintenance management system.

MLSD should purchase a computerized maintenance management system (CMMS) that has the ability to track the information recommended by NCES. When making the purchase, the District should ensure the vendor provides MLSD employees with appropriate training so that all functions are used to the fullest extent possible.

The District does not use a CMMS to manage its work requests. Rather, the District uses a paper-based work order system that is effective for assigning work to employees, but does not allow the District to easily track project histories, schedule preventive maintenance activities, or report other information such as labor and supply costs and project timeframes.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) notes that work order systems help school districts register and acknowledge work requests, assign tasks to staff, confirm that work was done, and track the cost of parts and labor. The NCES goes on to indicate that, at a minimum, work order systems should account for: the date the request was received; the date the request was approved; a job tracking number; the job status (received, assigned, ongoing, or completed); the job priority (emergency, routine, or preventive); the job location (where, specifically, is the work to be performed); the entry user (the person requesting the work); the supervisor and craftsperson assigned to the job; the supply and labor costs for the job; and the job completion date/time. The NCES also states that “…the purpose of the CMMS is to manage work requests as efficiently as possible and meet the basic information needs of the district.”

Financial Implication: It is estimated that a CMMS will cost approximately $1,000 annually, based on one vendor's advertised price. However, the exact price will depend on the features desired by MLSD and the contract terms negotiated with the vendor.

R3.4 Develop formal preventive maintenance and employee training programs.

The District should work with the OSFC in developing a formal preventive maintenance (PM) plan, document PM activities through the work order system (see R3.3), and update the PM plan on a regular basis to reflect continuing needs. The District should also follow through with its plans to adopt a formal employee training program oriented around the needs of the new building configurations.

The District does not have formal PM or employee training programs. The Facilities Manager provided documentation demonstrating that PM and employee training activities take place. However, these activities are more informal based on current needs rather than as part of documented long-term facilities maintenance and employee training programs. Under the OSFC's building construction program, the District will be required to prepare a long-term maintenance plan. Likewise, the Facilities Manager indicated that the District intends to develop a more formal training program that reflects employee needs under the new building configurations.

The *Planning Guide for Maintaining School Facilities* (NCES, 2003) indicates that "...a comprehensive facility maintenance program is a school district's foremost tool for protecting its investment in school facilities. Moreover, preventive maintenance is the cornerstone of any effective maintenance initiative." The NCES also recommends developing a formal training program designed to meet the needs of new and continuing staff.

R3.5 Update building square footage information and utility account coding.

MLSD should work with ODE to make sure that it has up-to-date building square footage information. MLSD should also use the 2700 function code to account for future utility expenditures.

In order to review MLSD's facilities operations, AOS obtained building square footage figures from the District and from ODE. However, there were significant variances between the two figures. Specifically, the District indicated that its total square footage is 470,928 while ODE reports that the total square footage is 288,772. The Facilities Manager indicated that he was unsure about the specific cause of the variance, but thought that the ODE figures did not capture additions/renovations to the school buildings since their original construction. AOS subsequently contacted the OSFC to determine what square footage figures were used to prepare for the upcoming construction project. A representative from OSFC indicated that they reviewed MLSD's buildings in 2006 and concluded that the total square footage is 473,807. Since the variance between the District's square footage and OSFC's square footage is less than one percent, the Facilities Manager's explanation concerning the square footage from ODE may be correct. However, because ODE uses the square footage figures for public reporting and comparison purposes, the large discrepancy warrants additional follow-up.

In addition to the inconsistent square footage figures, MLSD charges all of its utility expenditures to the 2620 function code. According to the uniform school accounting system (USAS), the 2620 function code represents "the purchasing of supplies, furniture, equipment and materials used in the school or school system operation." By comparison, USAS defines the 2700 function code as accounting for the operation and maintenance of plant services. Furthermore, all eight of the peers used in this performance audit use the 2700 function code to account for utility costs. ODE also uses school district expenditure information for public reporting and comparison purposes.

Transportation and Food Service

Background

This section of the performance audit focuses on Madison Local School District's (MLSD or the District) transportation and food service programs. Throughout this section, MLSD's operations are evaluated against selected peer school districts,[7] and leading or recommended practices and operational standards from applicable sources, including the Government Finance Officers Association (GFOA), the Ohio Department of Education (ODE), and the National Association of State Directors of Pupil Transportation Services (NASDPTS).

Summary of Operations

Transportation Program

On July 1 2008, the District entered into a contract with Community Bus Services Inc. (CBS) to provide student transportation services from FY 2008-09 through FY 2012-13. Under the terms of the contract, CBS is responsible for employing the school bus drivers and other transportation personnel, developing bus routes, ordering fuel, providing the necessary equipment and supplies to support school bus operations, and maintaining the school buses and related equipment. MLSD is responsible for providing CBS with the active and spare school buses, approving the routes submitted by CBS, providing appropriate facilities to house and maintain the school buses, and reimbursing CBS for fuel costs. The contract also includes a provision that guarantees $300,000 in annual savings throughout the term of the agreement based on the District's actual transportation costs in FY 2007-08, excluding the cost of fuel, bus purchases, field trips, and other miscellaneous items. The contract states that MLSD's transportation costs were $1,794,007 in FY 2007-08.

MLSD used CBS to provide Type I pupil transportation services to 1,911 riders in FY 2009-10 and 1,898 riders in FY 2010-11. Type I services pertain to those provided on District-owned yellow buses. **Table 4-1** compares MLSD's transportation data for FY 2009-10 to the peer average.

[7] See the **executive summary** for a list of peer districts and an explanation of the peer selection methodology. The peer average comprises eight school districts, unless noted otherwise.

Table 4-1: Key Statistics and Operating Ratios

Key Statistics	MLSD	Peer Average
Square Miles	45.0	87.1
Enrollment	3,294	2,354
Total Students Transported – All Types	1,941	1,574
Yellow Bus Riders (Type I)		
Public	1,869	1,502
Non-Public	6	30
Community School	2	0
Special Needs	34	23
Total Yellow Bus Riders	1,911	1,555
Buses (Type I)		
Active Buses	33	23
Spare Buses	7	6
Miles (Type I)		
Annual Routine Miles	363,420	315,405
Annual Non-Routine Miles	29,533	21,288
Total Miles	392,953	336,693
Operating Ratios		
Enrollment per Square Mile	73	59
Riders per Square Mile	43	40
Public Riders as Percent of Enrollment	57%	65%
Yellow Bus Riders per Active Bus	58	67
ODE Efficiency Measure	0.80	1.10
Spare Bus Ratio	18%	18%
Transportation Cost Ratios		
Total Cost per Yellow Bus Rider	$824	$792
Total Cost per Active Bus	$47,727	$50,782
Total Cost per Routine Mile	$4.33	$3.96

Source: MLSD and peer district T-forms.
Note: The peer average comprises eight school districts

Table 4-1 shows that MLSD transported 58 yellow bus riders per active bus[8] while the peer average was 67, despite the District's lower square miles and population density as measured by the ratios of enrollment per square mile and riders per square mile. Likewise, **Table 4-1** shows that MLSD achieved a score of 0.80 from ODE's efficiency measurement system while the peer average was 1.10. *Pupil Transportation Efficiency Targets* (ODE, 2009) indicates that the efficiency measure represents how closely a school district is meeting its targeted number of students transported per bus. The publication goes on to state that each school district has a unique target established by ODE based on its geography and population demographics. Under this model, an efficiency measure less than 1.0 indicates that a school district is not reaching the established target. The abovementioned variances are due to MLSD's routing and contract

[8] The District's ratio of yellow bus riders per active bus declined to 56 in FY 2010-11.

management practices. See **R4.2** for additional discussion.

Table 4-1 also shows that MLSD's transportation costs per rider and per routine mile are higher than the peer averages. However, these cost ratios are understated due to the District's T-form reporting practices, which exclude certain support costs incurred directly by MLSD. When the appropriate costs are included, MLSD's cost per rider increases to $1,000 and the cost per active bus increases to $57,909. The higher costs per rider are linked to the lower number of riders per bus, and the items in **R4.2** can help reduce the costs per rider and per active bus. AOS did not estimate the revised cost per mile due to data reliability issues with the reported mileage. See **R4.1** for additional analysis.

Food Service Program

The District offers a food service program through on-site kitchens located at each of the five school buildings. Through the program, the District employs approximately 15 FTEs that are responsible for preparing and serving lunches on a daily basis, and performing other support functions including operating cash registers, managing inventories, and planning future menus and production orders. In addition to lunches, the District serves daily breakfasts at the three elementary schools and the middle school. For accounting purposes, the food service program is organized as an enterprise operation that is intended to be self-sufficient through user charges. Nevertheless, MLSD's food service program has generated deficits the last three years, requiring periodic transfers from the General Fund in order to maintain positive cash balances. Specifically, the District's food service program generated deficit balances of $120,176 in FY 2008-09, $71,794 in FY 2009-10, and $130,589 in FY 2010-11. The District transferred $120,000 from the General Fund to the Food Service Fund to help offset the revenue shortfall in FY 2010-11.

Table 4-2 compares MLSD's Food Service Fund expenditures per participating student to the peer average for FY 2009-10.

Table 4-2: Expenditures by Object – Per Participating Student

	MLSD	Peer Average
Employee Wages	$313.94	$235.15
Fringe Benefits	127.62	134.89
Purchased Service	0.03	16.67
Supplies & Materials	274.27	282.31
Capital Outlays	0.16	5.52
Other Objects	0.03	0.48
Total Expenditures	**$716.05**	**$675.02**

Source: ODE

Table 4-2 shows that MLSD's expenditures are lower than the peer average in each line-item except employee wages.[9] The large variance in employee wages is due to MLSD's salary structure rather than its staffing levels. Specifically, **R2.2** in the **human resources** section shows that MLSD's food service employees earn $490,887 over the course of 30 years, assuming the employee works 1,040 hours per year. By comparison, the peer average is only $430,376. Furthermore, an analysis of food service staffing levels show that MLSD's employees are responsible for approximately 96 participating students per FTE while the peer average is 89.

In addition, the District does not charge utility costs or other overhead to the Food Service Fund (see **R4.4**), which understates the expenditure ratios in **Table 4-2**. Lastly, the District's lunch participation rates are low compared to the peers, which contribute to the operating deficits experienced the last three years (see **R4.5**).

Assessments Not Yielding a Recommendation

The following assessments yielded no recommendations:

- **Bus Preventive Maintenance:** CBS is responsible for performing preventive maintenance on the buses. The District provided sufficient documentation to demonstrate that CBS has a preventive maintenance plan that is being followed and is consistent with industry practices.

- **Food Service Purchasing:** The District uses a combination of competitive bidding and purchasing consortiums to procure its food service supplies and materials. **Table 4-2** shows that the District's supply and material expenditures per participating student are lower than the peer average.

[9] Assuming a similar participation rate as FY 2009-10, it is estimated that the District's total food service expenditures per participating student equaled $713.42 in FY 2010-11.

Recommendations

R4.1 Ensure transportation data is accurate.

The District should develop formal policies and procedures that stipulate the process for completing the T-forms, as well as the required supporting documentation. In particular, the District should ensure that it is accurately reporting costs, riders, and miles to ODE. Additionally, the policies and procedures should cover the review process for data in the T-forms, such as reconciling costs in the T-2 form to the District's accounting system.

Each school district in Ohio is required to report information about transportation operations to ODE on an annual basis. The T-1 form is used to report information on students, buses, and miles. The T-2 form is used to report the actual expenses incurred in the transportation of eligible students to and from their school. MLSD does not have formal policies or procedures for preparing the T-forms. In practice, the District relies on CBS to compile the T-forms and maintain supporting documentation. MLSD's Transportation Coordinator, Superintendent, and Treasurer are then responsible for reviewing, approving, and submitting the T-forms in compliance with ODE's annual reporting requirements.

A review of MLSD's T-forms and supporting documentation revealed the following:

- **Mileage:** The average daily mileage reported on MLSD's FY 2010-11 T-1 form is understated when compared to the District's supporting documentation. For instance, a sample review of 10 buses shows that the mileage reported on the T-1 form for seven buses is understated by an average of 18 percent when compared to the District's bus driver routing sheets. The Transportation Coordinator indicated that the variance is due to CBS only accounting for the morning runs when calculating the average daily miles for T-form purposes. The Transportation Coordinator further indicated that this issue has been discussed with CBS and that controls are being developed to prevent this from occurring on future T-form reports. *Instructions for Preparing Form T-1 Report for Pupil Transportation* (ODE, 2010) indicates that school districts should record the total number of daily routine miles for morning and afternoon public, nonpublic, and community school pupils, driven from the time the bus leaves storage, completes regular routes, and returns to storage.

- **Transportation Costs:** MLSD's T-2 form shows that it spent approximately $1.6 million on transportation expenses in FY 2009-10, with nearly all costs reported under the Type II – contractor owned classification. However, for financial reporting purposes, the District showed qualifying transportation expenditures of $1.9 million in FY 2009-10. MLSD's Assistant Superintendent indicated that the T-2 form only captures the contract with CBS, and excludes support costs incurred directly by the District for salaries, benefits, fuel, supplies and materials, and other miscellaneous expenses. The District also failed to report its internal support costs on the FY 2008-09 T-2 form. ODE's *Instructions for Preparing Form T-2 Report of Pupil Transportation Expense* (ODE, 2010) indicates that the T-2 and T-2C (contractor provided transportation) forms are designed to reflect the costs of providing transportation services to pupils reported on the T-1 form, and include fields for entering contracted services, salaries, benefits, fuel, insurance, supplies and materials, and other miscellaneous costs.

- **Prior Reports:** MLSD's FY 2007-08 T-2 form has notes from ODE representatives stating that the report was submitted late, and that it was initially rejected due to data entry errors. Similarly, the FY 2008-09 T-2 form was initially rejected due to inaccurate special education reporting. House Bill 1 included changes to the State funding formula for transportation purposes. The Transportation Coordinator at ODE indicated "a key difference in this formula from previous formulas is that the transportation funding will now be calculated based upon current year ridership, bus mileage, and service levels. This makes accurate and timely completion of T-forms very important."

R4.2 Improve transportation efficiency and reduce costs.

Prior to renewing the contract with CBS, the District should develop a formal analysis that compares the full costs (including internal support costs) and benefits of contracted transportation services against estimates to complete this function in-house. If the District decides to continue contracting for transportation services, it should use competitive bidding to ensure it receives the best price. In developing the bid specifications, the District should require that the vendor develop routes that, at a minimum, exceed ODE's efficiency targets for funding purposes, provides a flexible fee structure that allows for cost savings if MLSD improves routing efficiency, and addresses the District employing mechanics and performing the maintenance function. As a part of improving routing efficiency, the District should review the use of multi-tiered routing and cluster stops. MLSD should also ensure that it actively monitors the transportation contract, particularly in the areas of T-form reporting (see R4.1) and route development.

The operating and cost comparisons in **Table 4-1** show that while the District's transportation program is inefficient and costly when compared to the peers. This is further explained by the following:

- **State Funding:** House Bill 1 passed on July 17, 2009 and included changes to the State funding formula for transportation purposes. Under this system, a school district can receive additional State funding by exceeding certain ridership targets. ODE reports that MLSD transported 15 fewer riders per bus than the calculated efficiency target in FY 2010-11. As a result, the District did not receive any additional funding under this provision. By comparison, six of the eight peers met or exceeded their efficiency targets, with the average ridership exceeding the average efficiency target by 12 students per bus. The average efficiency bonus for the six peer districts equaled $38,000 in FY 2010-11.

- **Routing Efficiency:** In addition to losing available funding, the abovementioned ridership ratios show that CBS and the District are not effectively developing bus routes to minimize operating costs. For example, based on the current ridership (1,898 students), the District could eliminate four active buses by achieving ODE's efficiency target for FY 2010-11 of 63 riders per bus and seven active buses by achieving the peer average of 71 riders per bus in FY 2010-11 as reported by ODE. However, the contract does not specifically address whether the District would realize any cost savings through bus reductions. In addition, according to the Transportation Coordinator at ODE, multi-tiered routing plans are a successful strategy for minimizing cost and maximizing transportation capacity. The Transportation Coordinator indicated that the primary benefit of multi-tiered routing is that school districts can usually reduce the size of the fleet, thereby reducing operating costs. However, the preceding comparisons to ODE's efficiency target and the peers' ridership, coupled with the District's lower square miles and population density (see **Table 4-1**), suggest that MLSD is not making optimal use of multi-tiered routing.[10]

  According to the Superintendent, the District does not use cluster stops when designing bus routes. Instead, the District's general practice is to pick up and drop off students at their homes. The Superintendent also noted that CBS approached the District multiple times about implementing cluster stops and other efficiency improvements. However, according to the Superintendent, the Board decided against these changes, preferring to maintain the service levels in effect prior to CBS taking over the transportation function. Nevertheless, Ohio Administrative Code (OAC) Section 3301-83-13 indicates pupils in grades kindergarten through eight may be required to walk up to one-half mile to a designated bus stop. In addition, the Cobb County School District (Georgia) went through a formal process of consolidating bus stops for the 2009-10 school year and indicated the following related benefits:

  - Cost savings from less wear and tear on buses, less fuel consumption, and fewer employees;
  - Improved traffic flow;
  - Fewer bus back-ups and accidents; and
  - Potential for later starts and earlier dismissals.

[10] For FY 2011-12, the District has three bell schedules: one for the high school (7:35 AM to 2:45 PM), one for the middle school (9:00 AM to 3:15 PM), and one for the three elementary schools (8:00 AM to 2:00 PM). Staggered bell schedules enable MLSD to implement multi-tiered routing, whereby a bus can complete multiple runs.

- **Mechanics:** Under the original agreement, CBS was responsible for employing all bus drivers and other related personnel, which included bus mechanics. However, the OAPSE union filed a grievance regarding the employment status of the bus mechanics, and an arbitrator ruled that the bus mechanics must be employed by the District. As a result, the District re-employed 2.0 bus mechanic FTEs effective July 1, 2011. However, the contract does not specifically address whether the District can realize any cost savings by re-employing the mechanics.

- **Contract Costs:** When the District reviewed the option of contracting for transportation services in FY 2007-08, it became a contentious issue with certain parties questioning the benefits of the contract. In order to alleviate these concerns, the District negotiated a memorandum of understanding with CBS that guarantees at least $300,000 in annual savings when compared to the District's FY 2007-08 operating costs.[11] However, this guarantee is only effective with the current contract, which expires after FY 2012-13. Regardless of the guaranteed savings, MLSD's transportation costs per rider and per active bus are higher than the peer averages when considering the District's internal support costs (see **Table 4-1** and accompanying discussion).

- **Contract Oversight:** The contract with CBS has provisions that allow the District to provide proactive oversight and management guidance. However, the inaccurate T-forms (see **R4.1**), the failure to meet the ODE efficiency targets for State funding purposes, and the cost and operating comparisons against the peers suggest that the District is not taking full advantage of these provisions.

- **Cost-Benefits:** The prior Treasurer indicated that the District prepared a cost-benefit analysis in FY 2007-08 that reviewed the advantages and disadvantages of contracting for transportation services. However, the prior Treasurer did not provide AOS with this analysis. In addition to the guaranteed savings since FY 2007-08, several administrators indicated that the overall operations have improved since CBS began managing the transportation function. Nevertheless, conducting a formal cost-benefit analysis of the contracted transportation services relative to completing this function in-house will help ensure that the District makes the "best" decision prior to contract expiration in FY 2012-13, and that all costs are being considered.

[11] Although the contract guarantees $300,000 in annual savings, this provision excludes the cost of fuel, field trips and other miscellaneous services from the base cost used to determine the annual savings. Because these additional costs are included on the T-2 form, a reader would be unable to compare the T-2 reporting costs from one year to the next to determine if the District actually received $300,000 in savings.

Best Practices in Public Budgeting (GFOA, 2000) indicates that a government should regularly examine how it provides services and consider whether the service could be delivered more effectively or efficiently if provided in a different way, either by the government itself or by entities outside of the government. In addition, the article *Missing the Bus* (Buckeye Institute, 2000) indicates that analyses surrounding the costs of privatizing school bus operations do not typically identify all the direct and indirect costs of providing student transportation. Specifically, the article states that typical analyses ignore "…facility and equipment costs and allocated indirect costs, such as legal expenses, insurance, and real estate costs. Without these included, a comparison of contract pricing with in-house provision would provide inaccurate conclusions and misleading policy prescriptions for policymakers."

Financial Implication: Based on the additional funding received by the peers, the District would receive $38,000 in additional revenue by exceeding ODE's efficiency targets. The District could save $235,000 by reducing its transportation cost per active bus to the peer average. Alternatively, the District could save $403,000 by reducing its transportation cost per rider to the peer average. Reducing the cost per rider is directly impacted by the number of riders transported per bus. As a result, a reduction in this cost ratio would be driven by improving efficiency to reduce the number of active buses used to transport students. However, to be conservative, the financial recovery plan (**Table 1-4** in **financial systems**) includes $38,000 in additional revenue and $235,000 in cost savings. Lastly, the additional revenues and cost savings will only be reflected in FYs 2013-14 and 2014-15 because House Bill 153 suspends the use of the transportation formula enacted by House Bill 1 for FYs 2011-12 and 2012-13, and the current contract with CBS is in effect through FY 2012-13.

R4.3 Develop a bus replacement plan.

The District should develop and approve a formal bus replacement plan, and update it annually. The plan should address relevant factors to aid in replacement decisions, such as maintenance costs, estimated costs at time of replacement, safety conditions, mileage, and age.

MLSD does not have a formal bus replacement plan. According to the Treasurer, the District's informal practice is to replace two buses per year using permanent improvement levy proceeds. A review of MLSD's bus inventory shows that as of March 2011, the average age and mileage was approximately 7 years and 81,000 miles, respectively. In addition, the District had six buses that were equal to or older than 15 years, but only two had more than 200,000 miles and no buses exceeded 250,000 miles.

The National Association of State Directors of Pupil Transportation Services (NASDPTS) suggests that Type C and D buses (conventional buses) should be replaced after 12 to 15 years, and Type A and B buses (lighter duty buses) should be replaced after 8 to 10 years. NASDPTS also notes that the State of South Carolina replaces buses after 250,000 miles and/or 15 years of service. NASDPTS further indicates that "…it is clear that maintenance and operating cost data on individual school buses may provide the information needed to better define when individual or groups of school buses should be replaced. For example, reviews of individual school bus maintenance costs may identify buses that can be operated longer or which should be replaced sooner." Lastly, NASDPTS states that establishing school bus replacement policies is important because it directly impacts the timeliness of introducing the latest safety, efficiency, and emissions improvements into the fleet.

R4.4 Charge all appropriate costs to the Food Service Fund.

MLSD should begin charging all related costs to the Food Service Fund.

The District does not charge all applicable costs to the Food Service Fund. For instance, the District does not charge the Food Service Fund for any utilities or overhead costs (property insurance, trash removal, building maintenance, etc). Although these additional charges will increase food service costs, charging the appropriate amounts to the Food Service Fund will provide the District with a more accurate understanding of the cost to operate the food service program. This, in turn, will assist in making effective decisions.

According to *Measuring the Cost of Government Services* (GFOA, 2002), measuring the cost of government services is useful for a variety of purposes, including performance measurement and benchmarking, setting user fees and charges, and privatization analyses. The full cost of services includes all direct and indirect costs related to that service, including salaries, wages, and benefits of employees working on the delivery of the service, as well as supplies, materials, and other operating costs such as utilities and administrative expenses.

R4.5 Increase food service program participation rates.

The District should develop strategies to increase participation rates. Potential strategies include conducting customer surveys, and developing policies and procedures for evaluating meal prices. In addition, the District should review the implementation of the electronic point-of-sale (POS) system to ensure it is realizing the related benefits, such as increasing participation and improved management reporting capabilities to help eliminate the need for overtime. Furthermore, the District should include meal pricing in customer surveys to determine whether adjustments to prices would result in increased total revenues for the food service program.

According to reports published on ODE's website, MLSD's average daily lunch participation rate was 43 percent in FY 2009-10 while the peer average was 58 percent. This indicates that fewer students are choosing to purchase their lunch from MLSD when compared to the peers. The Food Service Director indicated that the lower participation rates are due to the economic recession, declining enrollment, and the District offering only a half-day kindergarten program.

Although these factors can contribute to the variance, the following strategies could help improve the participation rates:

- **Point-of-Sale (POS) Technology:** Prior to FY 2011-12, the District did not use a POS system for management reporting, or to monitor student purchases, participation rates, or inventory. Rather, the District relied on the food service staff to make judgments on these issues based on subjective opinions and manually tracked information. Furthermore, the Food Service Director indicated that cashiers receive some overtime pay every Monday for time spent manually completing paperwork and required reports. However, the District has installed a POS system for FY 2011-12. According to the District's website, "Madison has a new "Point of Sale" system for checking out breakfasts and lunches. This is a more accurate, confidential, and faster way to record purchases." Likewise, according to *School Foodservice Management for the 21st Century* (InTeam Associates, 1999), some of the benefits of an electronic food service management system with checks and balances and accurate data entry are increased efficiency, greater speed of data handling, reliable and accurate information, timely report processing, improved inventory control, comprehensive management reporting and analysis, nutritional analysis of meals served, reduced food and labor costs, and improved standardization. Additionally, a vendor advertises that a POS can increase participation rates, particularly in the free and reduced lunch program because it can privately process meal transactions (e.g. through prepaid debit cards).

- **Surveys:** The District does not conduct customer surveys to determine the strengths and weaknesses of the food service program, or to help determine future menu options. The National Food Service Management Institute indicates that surveys can be used to measure a variety of elements from many customers in school food service and nutrition programs. One common measurement is customer satisfaction. Customers may be students, parents, teachers, or administrators. Surveys also have been used to assess customer preferences in menu selection, and data gathered from surveys should be the basis for developing enhancements in school food service and nutrition programs. With the implementation of these practices, school food service and nutrition programs will help ensure a sound customer base and financial stability.

- **Meal Pricing:** The District does not have formal policies or procedures for establishing and reviewing meal prices. The Food Service Director indicated that the District increased prices approximately three years ago, with the increases ranging from $0.05 to $0.10 per meal. AOS conducted a survey of high school lunch prices and found that MLSD charges $3.35 per meal while 6 of the 8 peers charge an average of $2.53. The remaining two peers did not have their lunch prices posted on their websites. Higher meal prices can have a negative impact on overall participation rates. *Recommended Budgeting Practices* (GFOA, 1998) states that a government 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.

Financial Implication: The potential financial impact of increasing participation is reflected in **R4.6**

R4.6 Review other possible service delivery alternatives for the food service program.

The District should review other possible service delivery alternatives including outsourcing, collaborating with other entities to share services, and/or adopting a central kitchen concept. In reviewing these options and in considering strategies to improve program participation rates (see R4.5), the District's overall goal should be to develop a plan that eliminates the need for General Fund transfers to the Food Service Fund.

MLSD has not conducted cost-benefit analyses to review other alternatives for providing food services. For example, the District has not reviewed the option of privatizing the food service program, adopting a central kitchen concept, or partnering with other agencies or local restaurants to provide the current services.

Best Practices in Public Budgeting (GFOA, 2000) indicates that a government should regularly examine how it traditionally provides services and consider whether the service could be delivered more effectively or efficiently if provided in a different way, either by the government itself or by entities outside of the government. Likewise, according to *Shared Services in School Districts, Catalogue of Best Practices* (Rutgers University, 2007), significant cost saving can be realized when school districts collaborate to provide food services. For example, the Cornwall-Lebanon and Northern Lebanon School Districts in Pennsylvania operate with one Supervisor of Food and Nutrition Services for both districts. Daily menus can be planned based on the purchases for both districts. Collaboration on menus and a la carte items has helped to increase sales and improve the quality of food items offered to students in both districts. In addition, the 2008 performance audit of Fairport Harbor Exempted Village School District (Lake County) noted that the District had developed a collaborative partnership with several restaurants to permit them to sell meals directly to the students, providing they met the nutritional and pricing guidelines imposed by the District. This collaboration improved demand for the local restaurants and eliminated the need for Fairport Exempted Village School District to incur any costs related to the food service program. Finally, the article *Central Kitchen Brings Benefits to CA District* (Food Management Magazine, 2008) indicates that a California school district’s transition to a central kitchen allowed it to “…reduce costs while increasing nutrition, food quality and variety.” The article goes on to state that as a result, district administrators expect a “…30 percent increase in meal counts and labor savings through the gradual elimination of 29 positions. Last year, the district served around 357,000 breakfasts and almost 1.7 million lunches.”

Financial Implication: The District transferred $120,000 from the General Fund to the Food

Service Fund in FY 2010-11. Furthermore, the District's five-year forecast includes total annual General Fund transfers-out of $170,000 from FY 2012-13 through FY 2014-15. Assuming $120,000 of the transfers is related to the Food Service Fund, and **R4.5** and **R4.6** would help eliminate the need for this subsidy, removing this transfer would have a cumulative impact of reducing the District's deficit in FY 2014-15 by $360,000.

District Response

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

MADISON LOCAL SCHOOL DISTRICT

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Dr. Roger J. Goudy, Superintendent www.madisonschools.net

November 29, 2011

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

Dear Auditor Yost,

On behalf of the Madison Local School District, we would like to thank the entire Performance Audit team for their time and effort in preparing the audit report for our district. The staff was thorough and professional during all phases of the performance audit. The district voluntarily engaged in this audit process to give the Board of Education and district leadership an additional tool to further streamline district operations and continue to improve district efficiencies.

We appreciate the many accomplishments noted within the report which have helped the Madison Local School District to provide excellent educational services while maintaining a lean budget. We are committed to continuing our efforts in this area.

The recommendations for improvement identified in the report will help guide district decisions. Specifically, the treasurer's office affirms a commitment to providing important financial data to the Board of Education and the community at large through a variety of means including improved printed financial reports and additional information on the district web site. The district budget process will be revised to better reflect district priorities.

The district staffing analysis has already been used to inform decisions in recent budget reductions resulting in the elimination of several identified positions through attrition and a reduction in force (RIF). We hope to further streamline where possible when we move from a three building configuration to a two building configuration for K-5.

The facilities audit has provided valuable guidance for effectively maintaining district facilities. Staffing levels are being analyzed with the goal of reducing the total number of positions. The district has undertaken several energy conservation projects over the past few years and will continue all efforts to reduce energy costs. In addition, our new K-5 elementary and Middle School (6-8) will have state of the art controls and energy management systems.

Madison Local Schools will continue to analyze the information gained through the audit process for the continued improvement of our district. We thank you for your time and efforts on our behalf.

Sincerely,

Dr. Roger J. Goudy
Superintendent

Michael Vaccariello
Treasurer