



Dave Yost • Auditor of State

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# Dave Yost • Auditor of State

To the residents, elected officials, management, and stakeholders of the Middletown City School District,

At the request of the Ohio Department of Education, the Auditor of State's Ohio Performance Team conducted a performance audit of the District to provide an independent assessment of operations. Functional areas selected for operational review were identified with input from District administrators and were selected due to strategic and financial importance to the District. Where warranted, and supported by detailed analysis, this performance audit report contains recommendations to enhance the District's overall efficiency and effectiveness. This report has been provided to the District and its contents have been discussed with the appropriate elected officials and District management.

The District has been encouraged to use the management information and recommendations contained in the performance audit report. However, the District is also encouraged to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report. The Auditor of State has developed additional resources to help Ohio governments share ideas and practical approaches to improve accountability, efficiency, and effectiveness.

**SkinnyOhio.org:** This website, accessible at <http://www.skinnyohio.org/>, is a resource for smarter streamlined government. Included are links to previous performance audit reports, information on leading practice approaches, news on recent shared services examples, the Shared Services Idea Center, and other useful resources such as the Local Government Toolkit. The Shared Services Idea Center is a searchable database that allows users to quickly sort through shared services examples across the State. The Local Government Toolkit provides templates, checklists, sample agreements, and other resources that will help local governments more efficiently develop and implement their own strategies to achieve more accountable, efficient, and effective government.

This performance audit report can be accessed online through the Auditor of State's website at <http://www.ohioauditor.gov> and choosing the "Search" option.

Sincerely,

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

Dave Yost  
Auditor of State

April 9, 2015

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# Executive Summary

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## Purpose and Scope of the Audit

The Ohio Department of Education (ODE) requested and funded this performance audit of the Middletown City School District (MCSD or the District). ODE requested this performance audit with the goal of improving MCSD's financial condition through an objective assessment of the economy, efficiency, and effectiveness of the District's operations and management. See **Table 1** in **Background** for a full explanation of the District's financial condition.

The following scope areas were selected for detailed review and analysis in consultation with the District, including financial management, human resources, facilities, transportation, and food service. See **Appendix: Scope and Objectives** for detailed objectives developed to assess operations and management in each scope area.

## Performance Audit Overview

The United States Government Accountability Office develops and promulgates Government Auditing Standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are commonly referred to as generally accepted government auditing standards (GAGAS).

OPT conducted this performance audit in accordance with GAGAS. These standards require that OPT plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. OPT believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit provides objective analysis to assist management and those charged with governance and oversight 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.

## Audit Methodology

To complete this performance audit, auditors gathered data; conducted interviews with numerous individuals associated with the various divisions internally and externally, and reviewed and assessed available information. Assessments were performed using criteria from a number of sources including; peer comparison, industry standards, leading practices, statutory authority, and applicable policies and procedures.

In consultation with the District, three sets of peer groups were selected for comparisons contained in this report. A primary set of peers was selected for general District-wide

comparisons. In addition, peer groups were selected for a comparison of compensation, benefits and bargaining agreements (referred to as surrounding districts) and a separate set for a comparison of transportation service. The following table contains the Ohio school districts included in these peer groups.

**Peer Group Definitions**

|   |
|---|
| <b>Primary Peers</b>  |
| <ul style="list-style-type: none"> <li>• Elyria City School District (Lorain County)</li> <li>• Hamilton City School District (Butler County)</li> <li>• Huber Heights City School District (Montgomery County)</li> <li>• Lancaster City School District (Fairfield County)</li> <li>• Washington Local School District (Lucas County)</li> </ul>  |
| <b>Compensation, Benefits and Union Contract Peers (Surrounding Districts)</b>  |
| <ul style="list-style-type: none"> <li>• Carlisle Local School District (Warren County)</li> <li>• Edgewood City School District (Butler County)</li> <li>• Franklin City School District (Warren County)</li> <li>• Hamilton City School District (Butler County)</li> <li>• Lebanon City School District (Warren County)</li> <li>• Madison Local School District (Butler County)</li> <li>• Monroe Local School District (Butler County)</li> </ul>  |
| <b>Transportation Peers</b>   |
| <ul style="list-style-type: none"> <li>• Austintown Local School District (Mahoning County)</li> <li>• Delaware City School District (Delaware County)</li> <li>• Gahanna-Jefferson City School District (Franklin County)</li> <li>• Hamilton City School District (Butler County)</li> <li>• Licking Heights Local School District (Licking County)</li> <li>• Miamisburg City School District (Montgomery County)</li> <li>• Milford Exempted Village School District (Clermont County)</li> </ul> |

In addition to the peer districts listed above, comparisons were made to industry standards or leading practices where applicable. These include: the State Employee Relations Board (SERB), the Ohio Administrative Code (OAC), The Ohio Revised Code (ORC), the School Employees Retirement System (SERS), the State Teachers Retirement System (STRS), the Ohio Department of Education (ODE), and the Ohio School Facilities Commission (OSFC).

The performance audit involved information sharing with the District, including drafts of findings and recommendations related to the identified audit areas. Periodic status meetings throughout the engagement informed the District of key issues impacting selected areas, and shared proposed recommendations to improve operations. The District provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process.

AOS and OPT express their appreciation to the elected officials, management, and employees of the Middletown City School District for their cooperation and assistance throughout this audit.

**Issues for Further Study**

Issues are sometimes identified by AOS that were not direct objectives of the audit but could yield economy and efficiency if examined in more detail. During the course of the audit, the following issues were areas outside of the scope that, with further examination, could potentially yield improvements to operations.

- **Include transportation factors in redistricting:** In FY 2011-12, MCSD redistricted the elementary schools into neighborhood schools based on population. As a result, students on the same street may be districted into separate school buildings. In order to increase transportation efficiency, the District should consider redistricting elementary schools based on geography and other transportation factors in addition to population.
- **Evaluate professional/legal services fees:** The following table displays MCSD’s payments for legal services in comparison to the peer average.

**FY 2013-14 Professional/Legal Services Cost Per Pupil**

|                             | MCSD    | Peer Average | Difference | % Difference |
|-----------------------------|---------|--------------|------------|--------------|
| Professional/Legal Services | \$39.19 | \$31.80      | \$7.39     | 23.2%        |

Source: MCSD and Peer Financial Data

As shown in the table, MCSD expended significantly more than the peer average for legal services. The District should consider evaluating the cost/benefit of its professional/legal services.

- **Evaluate cost effectiveness of pupil transportation support service contract:** The following table displays MCSD’s payments for pupil transportation services in comparison to the peer average.

**FY 2013-14 Pupil Transportation Support Services Cost Per Pupil**

|                             | MCSD     | Peer Average | Difference | % Difference |
|-----------------------------|----------|--------------|------------|--------------|
| Professional/Legal Services | \$654.24 | \$415.33     | \$238.91   | 57.5%        |

Source: MCSD and Peer Financial Data

As shown in the table, MCSD expended significantly more than the peer average for pupil transportation services. Starting in FY 2011-12 pupil transportation services has been provided by Petermann Ltd. on a per route basis. Due to the issues identified with the T-form data required by ODE (see **R.7**), AOS could not perform a cost analysis of the current contract. Once the data issues are resolved, the District should evaluate the cost/benefit of the current transportation contract.



### Summary of Recommendations

The following table summarizes performance audit recommendations and financial implications, where applicable.

#### Summary of Recommendations

| Recommendations  | Savings            |
|--|--------------------|
| <b>R.1 Eliminate 35.0 full-time equivalent (FTE) general education teacher positions</b> | \$1,703,700        |
| <b>R.2 Eliminate 11.0 FTE Education Service Personnel (ESP) positions</b>                | \$750,700          |
| <b>R.3 Eliminate 4.0 FTE other professional-educational positions</b>                    | \$353,900          |
| <b>R.4 Evaluate the determination of special education support staff levels</b>          | N/A                |
| <b>R.5 Reduce severance payouts</b>  | \$91,400           |
| <b>R.6 Implement a comprehensive sick leave policy</b>                                   | N/A                |
| <b>R.7 Improve T-Form reporting</b>  | N/A                |
| <b>Total Cost Savings from Performance Audit Recommendations</b>                         | <b>\$2,899,700</b> |

This performance audit was initiated as a result of negative fund balances projected in MCSD’s May 2014 five year forecast. Since that time, the District released an updated five year forecast for October 2014. The following table shows the District’s ending fund balances as projected in its October 2014 five year forecast. Included are annual savings identified in this performance audit and the estimated impact that implementation of the recommendations will have on the ending fund balances.

#### Financial Forecast with Performance Audit Recommendations

|  | FY 2014-15 | FY 2015-16  | FY 2016-17  | FY 2017-18   | FY 2018-19   |
|--|------------|-------------|-------------|--------------|--------------|
| <b>Original Ending Fund Balance</b>                            | \$801,083  | \$1,181,428 | \$1,344,288 | \$2,211,914  | \$3,073,008  |
| <b>Cumulative Balance of Performance Audit Recommendations</b> |            | \$2,899,700 | \$5,799,400 | \$8,699,100  | \$11,598,800 |
| <b>Revised Ending Fund Balance</b>                             | \$801,083  | \$4,081,128 | \$7,143,688 | \$10,911,014 | \$14,671,808 |

Source: MCSD October 2014 Five Year Forecast and performance audit recommendations

Note: Although the District should seek to implement recommendations as soon as practicable there may be a reasonable delay in doing so. As a result, cost savings have been applied to FY 2015-16 through FY 2018-19 only.

By implementing the recommendations contained in this report, the District could improve its ending fund balance significantly. While the District’s October 2014 forecast does not project any negative year end fund balances during the forecast period, it is encouraged to implement the recommendations in this report to improve operational efficiency and increase its financial viability.

# Background

**Table 1** shows the financial condition as projected in the District's May 2014 five year forecast. This information is an important measure of the financial health of the District and serves as the basis for identification of conditions leading to fiscal status designation by AOS and ODE. Based on fund balance deficits projected in FY 2016-17 and FY 2017-18, it was determined by ODE that a performance audit was warranted in order to improve the District's financial condition.

**Table 1: MCSD Financial Condition Overview (May 2014)**

|                              | FY 2013-14         | FY 2014-15         | FY 2015-16         | FY 2016-17           | FY 2017-18           |
|------------------------------|--------------------|--------------------|--------------------|----------------------|----------------------|
| Total Revenue                | \$71,053,086       | \$68,129,469       | \$68,029,469       | \$67,995,999         | \$68,072,642         |
| Total Expenditure            | \$70,503,384       | \$67,506,310       | \$68,295,311       | \$70,036,412         | \$72,024,867         |
| <b>Results of Operations</b> | <b>\$549,702</b>   | <b>\$623,159</b>   | <b>(\$265,842)</b> | <b>(\$2,040,413)</b> | <b>(\$3,952,225)</b> |
| Beginning Cash Balance       | \$1,523,219        | \$2,072,921        | \$2,696,080        | \$2,430,238          | \$389,825            |
| <b>Ending Cash Balance</b>   | <b>\$2,072,921</b> | <b>\$2,696,080</b> | <b>\$2,430,238</b> | <b>\$389,825</b>     | <b>(\$3,562,400)</b> |
| Outstanding Encumbrances     | \$725,000          | \$725,000          | \$725,000          | \$725,000            | \$725,000            |
| <b>Ending Fund Balance</b>   | <b>\$1,347,921</b> | <b>\$1,971,080</b> | <b>\$1,705,238</b> | <b>(\$335,175)</b>   | <b>(\$4,287,400)</b> |

Source: MCSD May 2014 Five Year Forecast

As shown in **Table 1**, the District's May 2014 five year forecast projected year end fund deficits in FY 2016-17 and FY 2017-18. These expected deficits are caused by negative results of operations that were projected to begin in FY 2015-16 and widen in the ensuing years. In total, the District projected a year end fund deficit of over \$4.2 million by the end of the forecast period.

In October 2014, the District released an updated forecast which projected an improved financial condition. **Table 2** below summarizes this forecast.

**Table 2: MCSD Financial Condition Overview (October 2014)**

|                              | <b>FY 2014-15</b>  | <b>FY 2015-16</b>  | <b>FY 2016-17</b>  | <b>FY 2017-18</b>  | <b>FY 2018-19</b>  |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Revenue                | \$72,351,521       | \$72,213,164       | \$73,928,956       | \$75,716,377       | \$76,886,865       |
| Total Expenditure            | \$72,449,691       | \$71,832,819       | \$73,766,096       | \$74,848,751       | \$76,025,771       |
| <b>Results of Operations</b> | <b>(\$98,170)</b>  | <b>\$380,345</b>   | <b>\$162,860</b>   | <b>\$867,626</b>   | <b>\$861,094</b>   |
| Beginning Cash Balance       | \$1,649,253        | \$1,551,083        | \$1,931,428        | \$2,094,288        | \$2,961,914        |
| <b>Ending Cash Balance</b>   | <b>\$1,551,083</b> | <b>\$1,931,428</b> | <b>\$2,094,288</b> | <b>\$2,961,914</b> | <b>\$3,823,008</b> |
| Outstanding Encumbrances     | \$750,000          | \$750,000          | \$750,000          | \$750,000          | \$750,000          |
| <b>Ending Fund Balance</b>   | <b>\$801,083</b>   | <b>\$1,181,428</b> | <b>\$1,344,288</b> | <b>\$2,211,914</b> | <b>\$3,073,008</b> |

Source: MCSD October 2014 Five Year Forecast

As shown in **Table 2**, the District’s October 2014 forecast shows significant improvement relative to the financial condition projected in May 2014. Specifically, MCSD is forecasting a surplus of over \$3 million, a fund balance \$7 million higher than the previous projection. The revised financial projections are the result of the District contracting with a third party consultant to conduct a review of the previous (May 2014) forecast which revealed that it significantly under-projected unrestricted grants in aid (State funding). Based on this, MCSD revised its October forecast to project a 10.5 percent increase in unrestricted grants in aid in FY 2014-15 based on the funding formula devised by the Ohio Legislature for the 2013-2015 biennium budget. In addition, the District projects increases of 5 percent for each year of the forecast after FY 2014-15. Despite this improved forecast, the District is still encouraged to consider the implementation of the recommendations in this report in order to further increase its operational efficiency.

**Data Reliability**

Inaccuracies in operational transportation data (ridership and mileage data) encountered during the course of the audit led AOS to determine that this data could not be considered sufficiently reliable for use in this audit. As a result, AOS did not use the information obtained from the T-1 Reports due to the risk of reaching an incorrect conclusion and refrained from conducting further analysis on transportation operations.

# Recommendations

## R.1 Eliminate 35.0 full-time equivalent<sup>1</sup> (FTE) general education teacher positions

General education teachers instruct students in a regular classroom environment. OAC § 3301-35-05 requires the district-wide ratio of general education teachers to students to be at least 1.0 FTE classroom teacher for every 25 regular students. This category excludes teaching staff in other areas such as gifted, special education, and education service personnel (ESP). **Table 3** presents three options for staffing reductions in which the District would continue to operate within State requirements for general education teacher staffing levels based on FY 2013-14 data.

**Table 3: FY 2013-14 General Education Teacher Staffing Comparison**

| General Education Teacher FTEs      |   | 274.4                             |                            |                                    |                             |
|-------------------------------------|---|-----------------------------------|----------------------------|------------------------------------|-----------------------------|
| Regular Student Population          |   | 5,124.1                           |                            |                                    |                             |
| Staffing Ratio (Students: Teachers) |   | 18.7:1                            |                            |                                    |                             |
| Options                             | Staffing Ratio by Option (Students: Teachers) | Proposed Staffing for Each Option | Difference Above / (Below) | Proposed Reduction for this Option | Annual Savings <sup>1</sup> |
| Option 1: 20% Above State minimum   | 20.0:1  | 246.0                             | 28.4                       | 28.0                               | \$1,316,970                 |
| <b>Option 2: Peer Average</b>       | <b>21.4:1</b>                                 | <b>239.4</b>                      | <b>35.0</b>                | <b>35.0</b>                        | <b>\$1,703,703</b>          |
| Option 3: State Minimum             | 25.0:1  | 205.0                             | 69.4                       | 69.0                               | \$3,831,355                 |

Source: MCSD, peer districts, and OAC

<sup>1</sup>Annual savings calculated based on actual salaries of the lowest paid teachers.

As illustrated in **Table 3**, the District has several options for reducing general education teachers. The selection of an appropriate course of action is ultimately District management’s responsibility based on the needs and desires of the stakeholders in its community. Those decisions must be balanced, however, with their fiduciary responsibility to adapt to the financial realities in the District to maintain a solvent operation.

The District could gain financial efficiency by bringing its operations more in-line with the peer districts as demonstrated in Option 2. Should its financial condition worsen, however, the District could consider Option 3 which includes a staffing reduction to State minimum levels. While it is not a common practice in Ohio to operate at or near State minimums, some districts have had to make staffing reductions of that magnitude to address budget deficits.

<sup>1</sup> According to the *FY 2012-2013 EMIS Reporting Manual* (ODE, 2013) instructions for reporting staff data, an FTE is defined by the ratio between the amount of time normally required to perform a part-time assignment and the time normally required to perform the same assignment full-time. One (1.0) FTE is equal to the number of hours in a regular working day for that position, as defined by the district.

**Financial Implication:** Eliminating 35.0 FTE regular teachers would save approximately **\$1,703,700** in salaries and benefits annually. This savings was calculated using the 35 lowest paid general education teachers and includes an average benefit ratio of 40 percent.<sup>2</sup> Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

**R.2 Eliminate 11.0 FTE Education Service Personnel (ESP) positions**

ESP positions include K-8 art, music, and physical education teachers, counselors, librarians, social workers; and visiting teachers. In FY 2013-14 MCSD employed 48.0 FTE ESP staff, which included 12.0 FTE art teachers, 15.0 FTE music teachers, 12.0 FTE physical education teachers, 8.0 FTE counselors, and 1.0 FTE librarian. OAC § 3301-35-05 requires that school districts employ a minimum of 5.0 FTE ESP for every 1,000 students in the regular student population.

**Table 4** presents three options for staffing reductions in which the District would continue to operate within State requirements for ESP.

**Table 4: MCSD Education Service Personnel (ESP) Comparison**

| Education Service Personal FTE's        |   | 48.0                              |                           |                                    |                             |
|---|---|-----------------------------------|---------------------------|------------------------------------|-----------------------------|
| Regular Student Population              |   | 5,124.1                           |                           |                                    |                             |
| Staffing Ratio (ESP per 1,000 students) |   | 7.9                               |                           |                                    |                             |
|   |   |                                   |                           |                                    |                             |
| Options                                 | Staffing Ratio (ESP per 1,000 students) | Proposed Staffing for each Option | Difference Above/ (Below) | Proposed reduction for this option | Annual Savings <sup>1</sup> |
| <b>Option 1: Peer Average</b>           | <b>7.1</b>                              | <b>36.4</b>                       | <b>11.6</b>               | <b>11.0</b>                        | <b>\$750,674</b>            |
| Option 2: 20% Above State Minimum       | 6.0                                     | 30.7                              | 17.3                      | 17.0                               | \$1,139,601                 |
| Option 3: State Minimum                 | 5.0                                     | 25.6                              | 22.4                      | 22.0                               | \$1,565,252                 |

Source: MCSD, peer districts, and OAC

<sup>1</sup>Annual savings calculated based on actual salaries of the lowest paid teachers.

As illustrated in **Table 4**, the District has several options for reducing ESP positions. The selection of an appropriate course of action is ultimately District management’s responsibility based on the needs and desires of the stakeholders in its community. Those decisions must be balanced, however, with the fiduciary responsibility to adapt to the financial realities in the District to maintain a solvent operation.

MCSD could gain financial efficiency by bringing its operations more in-line with the peer districts as demonstrated in Option 1 above. Should its financial condition worsen, however, the District could consider the remaining options which include a staffing reduction to State minimum levels. While it is not a common practice in Ohio to operate at or near State

<sup>2</sup> Calculated using FY 2013-14 personal services expenditures divided by the employees’ retirement/insurance benefits expenditures from the May 2014 five-year forecast.

minimums, some districts have had to make staffing reductions of that magnitude to address their budget deficits.

**Financial Implication:** Reducing ESP staff by 11.0 FTEs will save approximately **\$750,700** in salaries and benefits annually. The savings was calculated using the 11 lowest ESP staff salaries and includes an average benefit ratio of 40 percent.<sup>3</sup> Estimated savings could increase if the reduction occurs through retirement or voluntary separation of more experienced or higher salaried ESP staff.

**R.3 Eliminate 4.0 FTE positions in the “Other Certificated” staff category**

MCSD’s “Other Certificated” staff category consists of curriculum specialists and other professional or educational staff who are otherwise not specifically categorized. **Table 5** compares the District’s staffing in this category to the peer average on a per 1,000 student basis for FY 2013-14.

**Table 5: Other Certificated Staff Comparison**

|                                  | MCSD      |                              | Peer Average                 | Difference                    |                                      |
|----------------------------------|-----------|------------------------------|------------------------------|-------------------------------|--------------------------------------|
| Students                         | 6,077     |                              | 6,084                        | (7.000)                       |                                      |
| Students Educated (thousands)    | 6.077     |                              | 6.084                        | (0.007)                       |                                      |
| Staffing Categories              | MCSD FTEs | MCSD FTEs per 1,000 Students | Peer FTEs Per 1,000 Students | Difference Per 1,000 Students | Total FTE Above (Below) <sup>1</sup> |
| Curriculum Specialists           | 2.0       | 0.3                          | 0.2                          | 0.1                           | 0.6                                  |
| Other Professional – Educational | 18.0      | 3.0                          | 0.9                          | 2.1                           | 12.8                                 |

Source: MCSD and peer districts

<sup>1</sup> Represents the number of FTEs that, when added or subtracted, would bring the District’s number of employees per 1,000 students in line with the peer average. Calculated by multiplying “Difference per 1,000 Students” by “Students Educated (thousands)”.

As shown in **Table 5**, the curriculum specialists and other professional-educational employees were overstaffed in comparison to the peer average. Curriculum specialists represent employees who assist in the creation and implementation of curriculum within a school district and other professional-educational represent employees that fulfill the definition of the professional-educational position assignment, however, do not have a specific job classification. It should be noted that while the other professional-educational classification category is overstaffed by over 12.0 FTEs, only 4.0 FTEs are paid out of the General Fund while the other 8.0 FTEs are paid out of federal funds. Since these employees do not have an impact on the District’s General Fund, they are excluded from the staffing analysis. In order to have an impact on the General Fund, MCSD should reduce the 4.0 FTE non-federally funded employees from this group.

**Financial Implication:** Reducing staffing by 4.0 FTE other certificated staff will save approximately **\$353,900** in salaries and benefits annually. This savings was calculated using the 4 lowest other professional-educational staff salaries that are paid out of the General Fund and

<sup>3</sup> Calculated using FY 2013-14 personal services expenditures divided by the employees’ retirement/insurance benefits expenditures from the May 2014 five-year forecast.

includes an average benefit ratio of 40 percent.<sup>4</sup> Estimated savings could increase if the reduction occurs through retirement or voluntary separation of more experienced or higher salaried staff.

**R.4 Evaluate special education support staff levels**

The non-certificated classroom support category includes teaching aides, instructional paraprofessionals, and attendants. **Table 6** compares the District’s non-certificated classroom support staff to the peer average on a per 1,000 student basis.

**Table 6: FY 2013-14 Non-Certificated Classroom Support Comparison**

|                                 | MCSD      |                              | Peer Average                 | Difference                                 |                         |
|---------------------------------|-----------|------------------------------|------------------------------|--|-------------------------|
| Students                        | 6,077     |                              | 6,084                        | (7.000)                                    |                         |
| Students Educated (thousands)   | 6.077     |                              | 6.084                        | (0.007)                                    |                         |
| Staffing Categories             | MCSD FTEs | MCSD FTEs per 1,000 Students | Peer FTEs per 1,000 Students | Difference per 1,000 Students <sup>1</sup> | Total FTE Above (Below) |
| Teaching Aides                  | 1.0       | 0.2                          | 4.3                          | (4.1)                                      | (24.9)                  |
| Instructional Paraprofessionals | 0.0       | 0.0                          | 4.3                          | (4.3)                                      | (26.1)                  |
| Attendants                      | 63.0      | 10.4                         | 1.1                          | 9.3  | 56.5                    |

Source: MCSD and peer districts

<sup>1</sup> Represents the number of FTEs that, when added or subtracted, would bring the District’s number of employees per 1,000 students in line with the peer average. Calculated by multiplying “Difference per 1,000 Students Educated” by “Students Educated (thousands)”.

As shown in **Table 6**, MCSD is overstaffed by 56.5 FTE attendant assignment positions compared to the peer average. Attendants are employees who assist students with orthopedic and/or other health handicapped or multi-handicapped children with personal health care needs within the confines of the educational setting.

In order to bring staffing to the peer average, the District would need to reduce 56.0 FTE attendant positions. However, attendants are hired to fulfill requirements in a student’s individual education plan (IEP), or are required to be present by law. As a result, the District needs to evaluate its legally required special education staffing levels. This should include reviewing the process of determining IEPs and reviewing the relevant State law and requirements associated with special education. In addition, the District should review the Education Management Information System (EMIS) coding of its special education support staff to ensure they are compliant with the law and the student’s IEP. Doing so may allow the District to reduce special education support staff to peer levels.

**R.5 Reduce severance payouts**

The District’s collective bargaining agreements (CBAs) provide a retirement severance payment of 25 percent of a maximum of 230 accumulated sick leave days for certificated staff and 25 percent of a maximum of 240 accumulated sick leave days for classified staff. This permits a

<sup>4</sup> Calculated using FY 2013-14 personal services expenditures divided by the employees’ retirement/insurance benefits expenditures from the May 2014 five-year forecast.

possible severance payout of 57.5 days for certificated staff and 60 days for classified staff. The CBAs also provide a super-severance for certificated and classified staff which incentivizes retirement in the first year of eligibility. This super-severance permits a total severance payout of 61.6 days for certificated staff, and 64.1 days for classified staff. In comparison, surrounding districts offer severances that range from 51 days to 110 days of unused sick leave paid out at retirement for their employees.<sup>5</sup>

ORC § 124.39 establishes a minimum severance of 30 days of accumulated sick leave paid to retiring employees with at least 10 years of service. MCSD offers a sick leave severance payout that is 27.5 days and 30 days over this required minimum level for certificated and classified staff, respectively. More generous severance provisions cause the District to incur excess costs by allowing a higher severance payout at retirement. Eliminating the super-severance and reducing the severance payout to a level in-line with the ORC minimum could result in significant future cost avoidance.

Financial Implication: Reducing severance payouts to a level comparable to the minimum amount established in ORC § 124.39 could save the District approximately **\$91,400**<sup>6</sup> annually based on FY 2011-12 through FY 2013-14 severance payout data. Eliminating only the super-severance could result in savings of approximately **\$24,700** annually based on FY 2013-14 payments.

## **R.6 Implement a comprehensive sick leave policy**

The District does not have contractual provisions addressing sick leave and its CBAs do not clearly state what constitutes a pattern of abuse. Further, required submission of physician statements to substantiate sick leave use is contractually required in only the classified CBA but is not consistently verified or enforced. In FY 2013-14, the District expended approximately \$138,000 for substitutes to replace full-time employees for all leave types. MCSD employees took a total of 5,516 sick leave days, with 204 employees using 9 or more days of sick leave. The daily cost of a substitute teacher is approximately \$103 per day; although not all leave taken requires a substitute to be hired.

According to *Sick Leave Abuse: A Chronic Workplace Ill?* (ASPA Times, 2002), determining if and why employees exploit leave policies is important. The following explains common guidelines all employers can follow to manage sick leave effectively:

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<sup>5</sup> Monroe LSD (Butler County) offers certificated and classified employees a maximum of 51 days of unused sick leave at retirement, with bonuses of \$1,000 for all retiring employees and \$15,000 for certificated and \$7,500 for classified employees if retiring at first eligibility. Carlisle LSD (Warren County) offers certificated employees a maximum of 60 days of unused sick leave at retirement. Madison LSD (Butler County) offers certificated and classified employees a maximum of 51 days and 68 days of unused sick leave at retirement, respectively. Franklin CSD (Warren County) offers certificated and classified employees a maximum of 59 days and 94.5 days of unused sick leave at retirement, respectively. Lebanon CSD (Warren County) offers certificated and classified employees a maximum of 53 days plus 1 day for each 15 days over the maximum accumulation and 57 days of unused sick leave at retirement, respectively. Hamilton CSD (Butler County) offers certificated and classified employees 105 days plus a \$1,000 bonus and 110 days of unused sick leave at retirement, respectively.

<sup>6</sup> Based on the average number sick days paid out for retirements for the period FY 2011-12 through FY 2013-14 in excess of the ORC minimum, multiplied by the employees' final daily rate.



- Recognize the problem and take immediate action to enforce leave policies;
- Uncover the root cause of employee leave abuse;
- Learn to say no. Do not ignore employee abuse of leave policies;
- Use procedures, regulations, practices, and knowledge to benefit management as well as the employee; and
- Document everything to learn from past mistakes.

The collective bargaining agreement between the Ohio Civil Service Employees Association (OCSEA) and the State of Ohio contains provisions for disciplining employees for sick leave abuse and provisions for a pattern of abuse (defined as consistent periods of sick leave use). The agreement provides the following examples of patterns of abuse for sick leave taken:

- Before and/or after holidays;
- Before and/or after weekends or regular days off;
- After pay days;
- On any one specific day of the week;
- Following overtime worked;
- As half days;
- Resulting in a continued pattern of maintaining zero or near zero balances; and
- Resulting in excessive absenteeism.

The District should implement a comprehensive sick leave policy that clearly defines what constitutes abuse and should enforce disciplinary action when it is identified. Implementation of sick leave policies may require collective bargaining; however, the District is not limited to policy implementation as a means of curbing leave usage as improved management of sick leave could also be accomplished through increased supervision. Developing formal policies that effectively communicate specific leave expectations with employees as well as procedures for administration or department heads to use in monitoring sick leave use may allow the District to reduce cumulative leave usage. Defining patterns that are considered abuse and communicating possible disciplinary actions with employees will assist in this endeavor. Policies should be communicated across all departments and included in a comprehensive employee policy and procedures manual or negotiated in each collective bargaining agreement as appropriate.

### **R.7 Improve T-Form reporting**

Pursuant to OAC § 3301-83-01, school districts are required to file annual reports of the number of pupils transported, miles traveled, actual costs, and other information necessary to calculate State funding for pupil transportation. Transportation data is reported to ODE using T-1 and T-2 Forms with the output of this data made available from ODE in T-1 and T-2 Reports. The T-1 Form contains operational data such as method of transport, pupil ridership, mileage, and buses used for transport and the T-2 Form contains end of year expense data for transportation operations. The Contractor is responsible for collecting MCSD T-Form data including daily ridership and mileage from each bus driver via paper count sheets and completing the T-1 Form based on the information contained in the count sheets.

The District's FY 2013-14 T-1 Report was compared to data recorded on bus driver count sheets. This comparison revealed errors including inaccurate student counts, mileage reported in the student count column, and incorrect identification of buses as regular or special education. Specifically, 26 of the 46 reported buses had mileage reported in the student column, which led the District to significantly underreport its student ridership. This data must be accurate, as transportation operations are funded by the State based on the number of students transported or miles traveled, whichever is greater. Underreporting its ridership negatively impacts potential funding for the District. In addition, the Contractor reported a bus to the alternative high school as being a special education bus,<sup>7</sup> even though these students were not on IEPs. As a result, the District submitted incorrect special education ridership to ODE which could also impact funding.

The T-2 Report was compared to the District's actual expenditures which showed a significant variance between reported data and actual expenditures as the Contractor neglected to include expenditures for specialized transportation, bus fuel, and other transportation related expenses on the T-2 Form. In addition, the Contractor did not record non-routine mileage of the fleet as required by ODE. As a result, expenditures related to extracurricular activity could not be taken into account. While the Contractor is required to report a breakdown of expense data to MCSD, the District has the ultimate responsibility to report pupil transportation expenditures to ODE.

Prior to submitting T-1 and T-2 data to ODE, the forms are signed by the Contractor, the Superintendent, and the Treasurer. The number and type of errors indicate that there are deficiencies in the data collection and review process for these forms. Specifically, the errors identified in the T-1 Report data may very likely have been avoided with a proper review of the documentation prior to submission. Implementing effective measures designed to identify and reduce errors would result in a decreased risk of receiving inaccurate funding for pupil transportation.

**During the course of this audit, the District contacted ODE and made corrections to its FY 2013-14 report. In addition, new procedures and processes were put in place for subsequent years.**

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<sup>7</sup> In order for a bus to be considered special education, a majority of its riders must be on IEPs.

# Appendix A: Scope and Objectives

Generally accepted government auditing standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. Objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.

In consultation with ODE and the District, OPT identified the following scope areas for detailed review: financial management, human resources, facilities, transportation, and food service. Based on the agreed upon scope, OPT developed objectives designed to identify improvements to economy, efficiency, and/or effectiveness. **Table A-1** illustrates the objectives assessed in this performance audit and references the corresponding recommendation when applicable. Twenty-one of the 25 objectives did not yield a recommendation (see **Appendix B** for additional information including comparisons and analyses that did not result in recommendations).

**Table A-1: Audit Objectives and Recommendations**

| Objective   | Recommendation                   |
|---|----------------------------------|
| <b>Financial Management</b>   |                                  |
| Are budgeting practices comparable to best practices?   | N/A                              |
| Are purchasing practices comparable to best practices?  | N/A                              |
| <b>Human Resources</b>  |                                  |
| Is EMIS data reliable for use?  | N/A                              |
| Are certificated, classified, and administrative salaries comparable to the surrounding districts?              | Table B-4                        |
| Is administrative staff cross-trained?  | N/A                              |
| Are collective bargaining agreements consistent with leading practices and comparable to surrounding districts? | R.5                              |
| Are insurance benefits comparable to leading practices?   | Table B-2, B-3                   |
| Are staffing levels comparable to peers?  | R.1; R.2; R.3; R.4;<br>Table B-1 |
| Is sick leave usage comparable to State averages?   | R.6                              |
| <b>Facilities</b>   |                                  |
| Is custodial and maintenance staffing efficient and appropriate for buildings in operation?                     | N/A                              |
| Are buildings used effectively?   | Table B-5                        |
| Are utility costs per square foot comparable to peers?  | N/A                              |
| Is an energy conservation plan implemented?   | N/A                              |
| Are utilities purchased from a consortium?  | N/A                              |
| Are purchased services comparable to the peers?   | N/A                              |
| Are maintenance orders efficiently requested?   | N/A                              |
| <b>Transportation</b>   |                                  |
| Is T-form information accurate?   | R.7                              |
| Is the bus fleet right sized?   | N/A                              |
| Is fuel purchased efficiently?  | N/A                              |
| Are supplies and materials purchased efficiently?   | N/A                              |
| Are the bus routes efficient?   | N/A                              |

|  |     |
|--|-----|
| Does fleet maintenance meet best practices?                      | N/A |
| <b>Food Service</b>  |     |
| Is the food service fund dependent upon the General Fund?        | N/A |
| Do the District's meals per labor hour meet national benchmarks? | N/A |
| Does the District purchase its food through a consortium?        | N/A |

# Appendix B: Additional Comparisons

## Staffing

**Table B-1** compares the District’s staffing on a per 1,000 student basis to the peer average.

**Table B-1: Staffing Comparison Summary (in FTEs)**

|                                    | MCSD      |                    | Peer Average                          | Difference                    |                                       |
|------------------------------------|-----------|--------------------|---------------------------------------|-------------------------------|---------------------------------------|
| Students                           | 6,077     |                    | 6,084                                 | (7.000)                       |                                       |
| Students Educated (in thousands)   | 6.077     |                    | 6.084                                 | (0.007)                       |                                       |
|                                    | FTE Staff | FTE/1,000 Students | Peer Average Staff per 1,000 Students | Difference per 1,000 Students | Total FTEs Above (Below) <sup>1</sup> |
| Administrative                     | 26.0      | 4.3                | 4.8                                   | (0.5)                         | (3.0)                                 |
| Office/Clerical                    | 40.0      | 6.6                | 7.0                                   | (0.4)                         | (2.4)                                 |
| General Education Teachers         | 274.4     | 45.2               | 41.2                                  | 4.0                           | 24.3                                  |
| All Other Teachers                 | 74.0      | 12.2               | 13.5                                  | (1.3)                         | (7.9)                                 |
| Education Service Personnel (ESP)  | 48.0      | 7.9                | 6.2                                   | 1.7                           | 10.3                                  |
| Educational Support                | 9.0       | 1.5                | 3.7                                   | (2.2)                         | (13.4)                                |
| Other Certificated                 | 20.0      | 3.3                | 1.4                                   | 1.9                           | 11.5                                  |
| Non-Certificated Classroom Support | 64.0      | 10.5               | 9.8                                   | 0.7                           | 4.3                                   |
| Operations                         | 2.0       | 0.3                | 19.8                                  | (19.5)                        | (118.5)                               |
| All Other Staff                    | 21.8      | 3.6                | 4.7                                   | (1.1)                         | (6.7)                                 |

Source: MCSD and peer EMIS reports

<sup>1</sup> Represents the number of FTEs that, when added or subtracted, would bring the District’s number of employees per 1,000 students in line with the peer average. Calculated by multiplying “Difference per 1,000 Students Educated” by “Students Educated (thousands)”.

As shown in **Table B-1**, several areas show the District being staffed at a higher level than the peers. These areas are general education teachers (see **R.1**), ESP (see **R.2**), other certificated (see **R.3**), and non-certificated classroom support (see **R.4**). The District contracts for its transportation, facility maintenance, and food service operations, which is represented in the operations category above. As a result, comparisons were not conducted for operations staffing.

## Health Insurance

MCSD offers three health insurance plans through the Butler Health Plan Consortium: a preferred provider organization (PPO), a high deductible health plan (HDHP), and an exclusive provider organization (EPO). The PPO is the primary plan, covering 93 percent of enrolled employees. In contrast, the HDHP and EPO cover 3.3 percent and 3.8 percent of enrolled employees respectively.

The State Employment Relations Board (SERB) surveys public sector entities concerning health insurance costs and publishes this information annually in its *Annual Report on the Cost of*

*Health Insurance in Ohio’s Public Sector.* The purpose of this survey is to provide data on various aspects of health insurance, plan design, and cost for government entities in Ohio. For FY 2013-14, MCSD’s premiums for single and family coverage were compared to regional averages published in the *21<sup>st</sup> Annual Report on the Cost of Health Insurance in Ohio’s Public Sector* (SERB, 2014). According to SERB, the Cincinnati regional average medical insurance plans purchased by government entities averaged \$6,360 per single plan and \$17,052 per family plan. Comparatively, the PPO plan at MCSD costs \$420 more for single coverage and \$396 more for family coverage, while the other plans are lower or in line with the regional average. Despite having higher premiums, the actual cost to the District was lower due to employee contribution levels. **Table B-2** compares monthly employer costs to the SERB benchmark.

**Table B-2: Monthly Health Insurance Premium Cost Comparison**

|             | MCSD Cost | SERB Average Employer Cost <sup>1</sup> | Difference | Percentage Difference |
|-------------|-----------|---|------------|-----------------------|
| Single Plan | \$452     | \$476                                   | (\$24)     | (5.0%)                |
| Family Plan | \$1,163   | \$1,211                                 | (\$48)     | (4.0%)                |

Source: MCSD and SERB

<sup>1</sup> Average of school district with student population between 2,500 and 9,999.

As shown in **Table B-2**, the District’s cost for insurance was lower than the peer average for single and family plans. In addition to employer costs, PPO plan design was also compared to SERB statewide averages. This comparison found that deductibles, co-pays, and out of pocket maximums were all either less generous or in line with the SERB Statewide average.

The District offers three different dental insurance plans through the Butler Health Plan Consortium: basic, standard, and premium. In FY 2013-14, 86 percent of employees enrolled in the dental plan chose to receive the more expensive premium plan. **Table B-3** below compares the monthly employer costs for dental insurance compared to the SERB benchmark.

**Table B-3: Monthly Dental Insurance Premium Cost Comparison**

|                      | MCSD    | SERB Regional Average <sup>1</sup> | Difference | % Difference |
|----------------------|---------|------------------------------------|------------|--------------|
| <b>Basic Plan</b>    |         |                                    |            |              |
| Single               | \$21.60 | \$32.90                            | (\$11.30)  | (34.3%)      |
| Family               | \$54.40 | \$80.54                            | (\$26.14)  | (32.5%)      |
| <b>Standard Plan</b> |         |                                    |            |              |
| Single               | \$32.00 | \$32.90                            | (\$0.90)   | (2.7%)       |
| Family               | \$83.20 | \$80.54                            | \$2.66     | 3.3%         |
| <b>Premium Plan</b>  |         |                                    |            |              |
| Single               | \$38.40 | \$32.90                            | \$5.50     | 16.7%        |
| Family               | \$90.40 | \$80.54                            | \$9.86     | 12.2%        |

Source: MCSD and SERB

<sup>1</sup> SERB averages for all school districts.

As shown in **Table B-3**, the District’s employer cost for dental insurance was lower than the SERB average for basic and standard plans. However, the employer cost is higher for the premium plan, in which the majority of employees are enrolled. The premium plan offers more generous benefits to employees than the basic or standard plans, which results in a higher

premium. For the District to save on its dental insurance, it would need to encourage employees to enroll in the less expensive dental plans or eliminate the premium plan.

*Salaries*

**Table B-4** below compares career compensation based on salary schedules contained in the CBAs for MCSD and the surrounding districts.

**Table B-4: Career Compensation Salary Comparison**

|                             | MCSD        | Surrounding District Average | Difference | % Difference |
|-----------------------------|-------------|------------------------------|------------|--------------|
| <b>Certified (Teachers)</b> |             |                              |            |              |
| Bachelor's                  | \$1,571,083 | \$1,538,621                  | \$32,462   | 2.1%         |
| Master's                    | \$1,782,848 | \$1,759,613                  | \$23,235   | 1.3%         |
| <b>Classified</b>           |             |                              |            |              |
| Aide                        | \$431,411   | \$413,728                    | \$17,683   | 4.3%         |
| Administrative Assistant    | \$1,072,906 | \$1,031,466                  | \$41,440   | 4.0%         |

Source: MCSD and surrounding peer districts

As shown in **Table B-4**, MCSD career salaries are higher than the surrounding district average. Overall, average total salary levels were comparable (2.4 percent higher) than the surrounding district average. For the classified and certificated CBA terms beginning July 2011 and ending June 2014, all salary steps were frozen. As a result, no recommendation was issued.

*Facilities Utilization*

**Table B-5** displays the utilization rate by school building and District-wide.

**Table B-5: Building Utilization Rates**

| Building                 | Capacity     | Enrollment   | Utilization  |
|--------------------------|--------------|--------------|--------------|
| Amanda Elementary        | 550          | 476          | 86.5%        |
| Central Academy          | 425          | 360          | 84.7%        |
| Creekview Elementary     | 525          | 453          | 86.3%        |
| Highview Elementary      | 550          | 426          | 77.5%        |
| Mayfield Elementary      | 575          | 505          | 87.8%        |
| Miller Ridge Elementary  | 550          | 467          | 84.9%        |
| Rosa Parks Elementary    | 600          | 471          | 78.5%        |
| Wildwood Elementary      | 575          | 543          | 94.4%        |
| Middletown Middle School | 1,200        | 812          | 67.7%        |
| Middletown High School   | 2,350        | 1,486        | 63.2%        |
| <b>Total</b>             | <b>7,900</b> | <b>5,999</b> | <b>75.9%</b> |

Source: MCSD

**Table B-5** above shows an overall utilization rate of 75.9 percent. While this is lower than the 85 percent utilization rate benchmark established in *Defining Capacity* (DeJong 1999), there are no current possibilities available to close a building at the District without exceeding the benchmark. As a result, no recommendation was warranted. In addition, because the District has contracts with a private vendor for its custodial staffing, a staffing analysis was not conducted.

# Appendix C: Five Year Forecast

Chart C-1 displays the District's May 2014 Five Year Forecast.

**Chart C-1: MCSD May 2014 Five Year Forecast**

| <b>Middletown Five Year Forecast for Fiscal Year 2014</b>  |             |             |            |            |            |            |             |             |
|--|-------------|-------------|------------|------------|------------|------------|-------------|-------------|
| District Type: City<br>IRN: 044404<br>County: Butler<br>Date Submitted: 5/22/2014 Date Processed: 6/4/2014 |             |             |            |            |            |            |             |             |
| Line   | Actual      |             |            | Forecasted |            |            |             |             |
|  | 2011        | 2012        | 2013       | 2014       | 2015       | 2016       | 2017        | 2018        |
| 1.010 General Property (Real Estate)   | 27,459,498  | 27,429,425  | 27,844,786 | 27,586,034 | 27,406,695 | 27,456,695 | 27,561,158  | 27,763,566  |
| 1.020 Tangible Personal Property Tax   | 132,757     | 11,089      | 1,943      |            |            |            |             |             |
| 1.035 Unrestricted Grants-in-Aid   | 26,652,103  | 27,354,387  | 27,802,355 | 25,792,965 | 27,158,516 | 27,158,516 | 27,158,516  | 27,158,516  |
| 1.040 Restricted Grants-in-Aid   | 2,424,232   | 1,318,949   | 360,088    | 4,131,791  | 4,131,791  | 4,131,791  | 4,131,791   | 4,131,791   |
| 1.050 Property Tax Allocation  | 7,271,639   | 8,146,901   | 8,302,805  | 8,109,964  | 7,900,136  | 7,750,136  | 7,612,203   | 7,486,437   |
| 1.060 All Other Operating Revenue  | 1,538,573   | 1,858,113   | 1,552,332  | 3,932,332  | 1,532,332  | 1,532,332  | 1,532,332   | 1,532,332   |
| 1.070 Total Revenue  | 65,478,802  | 66,118,864  | 65,864,309 | 69,553,086 | 68,129,469 | 68,029,469 | 67,995,999  | 68,072,642  |
| 2.040 Operating Transfers-In   | 34,950      | 81,563      | 594,150    |            |            |            |             |             |
| 2.050 Advances-In  | 91,636,036  | 2,322,466   | 2,113,895  | 1,500,000  |            |            |             |             |
| 2.060 All Other Financial Sources  | 137,968     | 286,362     | 448,527    |            |            |            |             |             |
| 2.070 Total Other Financing Sources  | 91,808,954  | 2,690,391   | 3,156,572  | 1,500,000  |            |            |             |             |
| 2.080 Total Revenues and Other Financing Sources   | 157,287,756 | 68,809,255  | 69,020,881 | 71,053,086 | 68,129,469 | 68,029,469 | 67,995,999  | 68,072,642  |
| 3.010 Personnel Services   | 38,920,804  | 33,389,497  | 30,299,357 | 29,197,574 | 29,400,568 | 28,824,070 | 28,896,130  | 28,968,370  |
| 3.020 Employees' Retirement/Insurance Benefits   | 13,102,714  | 13,267,055  | 11,701,747 | 11,544,685 | 11,324,410 | 12,051,189 | 13,221,135  | 14,622,915  |
| 3.030 Purchased Services   | 15,775,221  | 19,375,754  | 22,350,326 | 23,841,580 | 23,742,989 | 24,338,409 | 24,792,918  | 25,256,518  |
| 3.040 Supplies and Materials   | 1,675,720   | 1,449,608   | 996,931    | 1,176,343  | 1,352,816  | 1,393,400  | 1,435,202   | 1,478,258   |
| 3.050 Capital Outlay   | 305,674     | 11,033      |            | 1,600,000  |            |            |             |             |
| 4.010 Debt Service: All Principal (Historical)   | 152,655     | 156,287     | 160,580    |            |            |            |             |             |
| 4.050 Debt Service: Principal - HB 264 Loans   |             |             |            | 160,580    | 210,082    | 214,802    | 219,750     | 229,939     |
| 4.060 Debt Service: Interest and Fiscal Charges  | 73,488      | 66,553      | 59,326     | 77,395     | 84,323     | 75,407     | 66,262      | 56,802      |
| 4.300 Other Objects  | 708,342     | 715,992     | 705,227    | 705,227    | 691,122    | 698,034    | 705,014     | 712,064     |
| 4.500 Total Expenditures   | 70,714,618  | 68,431,779  | 66,273,494 | 68,303,384 | 66,806,310 | 67,595,311 | 69,336,412  | 71,324,867  |
| 5.010 Operational Transfers - Out  | 727,325     | 701,643     | 1,199,084  | 700,000    | 700,000    | 700,000    | 700,000     | 700,000     |
| 5.020 Advances - Out   | 91,501,864  | 2,007,078   | 1,715,038  | 1,500,000  |            |            |             |             |
| 5.030 All Other Financing Uses   |             |             | 88         |            |            |            |             |             |
| 5.040 Total Other Financing Uses   | 92,229,189  | 2,708,721   | 2,914,210  | 2,200,000  | 700,000    | 700,000    | 700,000     | 700,000     |
| 5.050 Total Expenditure and Other Financing Uses   | 162,943,807 | 71,140,500  | 69,187,704 | 70,503,384 | 67,506,310 | 68,295,311 | 70,036,412  | 72,024,867  |
| 6.010 Excess Rev & Oth Financing Sources over(under) Exp & Oth Financing                                   | (5,656,051) | (2,331,245) | (166,823)  | 549,702    | 623,159    | (265,842)  | (2,040,413) | (3,952,225) |
| 7.010 Beginning Cash Balance   | 9,677,338   | 4,021,287   | 1,690,042  | 1,523,219  | 2,072,921  | 2,696,080  | 2,430,238   | 389,825     |
| 7.020 Ending Cash Balance  | 4,021,287   | 1,690,042   | 1,523,219  | 2,072,921  | 2,696,080  | 2,430,238  | 389,825     | (3,562,400) |
| 8.010 Outstanding Encumbrances   | 954,830     | 647,610     | 738,081    | 725,000    | 725,000    | 725,000    | 725,000     | 725,000     |
| 10.010 Fund Balance June 30 for Certification of Appropriations  | 3,066,457   | 1,042,432   | 785,138    | 1,347,921  | 1,971,080  | 1,705,238  | (335,175)   | (4,287,400) |
| 12.010 Fund Bal June 30 for Cert of Contracts, Salary Sched, Oth Obligations                               | 3,066,457   | 1,042,432   | 785,138    | 1,347,921  | 1,971,080  | 1,705,238  | (335,175)   | (4,287,400) |
| 15.010 Unreserved Fund Balance June 30   | 3,066,457   | 1,042,432   | 785,138    | 1,347,921  | 1,971,080  | 1,705,238  | (335,175)   | (4,287,400) |

Source: ODE



Chart C-2 displays the District's October 2014 Five Year Forecast.

**Chart C-2: MCSD October 2014 Five Year Forecast**

| <b>Middletown Five Year Forecast for Fiscal Year 2015</b>                    |             |            |            |            |            |            |            |            |
|--|-------------|------------|------------|------------|------------|------------|------------|------------|
| District Type: City  |             |            |            |            |            |            |            |            |
| IRN: 044404  |             |            |            |            |            |            |            |            |
| County: Butler   |             |            |            |            |            |            |            |            |
| Date Submitted: 10/30/2014 Date Processed: 10/31/2014                        |             |            |            |            |            |            |            |            |
| Line   | Actual      |            |            | Forecasted |            |            |            |            |
|  | 2012        | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | 2019       |
| 1.010 General Property (Real Estate)   | 25,347,087  | 25,369,162 | 25,175,464 | 24,939,008 | 24,754,758 | 24,637,860 | 24,609,369 | 25,942,338 |
| 1.020 Tangible Personal Property Tax   | 2,052,454   | 2,437,010  | 2,396,728  | 2,448,858  | 2,531,956  | 2,612,307  | 2,676,393  | 2,893,661  |
| 1.035 Unrestricted Grants-in-Aid   | 27,354,387  | 27,802,355 | 26,159,682 | 29,196,279 | 30,805,776 | 32,499,471 | 34,278,597 | 36,146,043 |
| 1.040 Restricted Grants-in-Aid   | 1,318,949   | 360,088    | 4,163,644  | 4,123,907  | 4,123,907  | 4,123,907  | 4,123,907  | 4,123,907  |
| 1.050 Property Tax Allocation  | 8,146,901   | 8,302,805  | 8,282,573  | 8,095,640  | 7,833,616  | 7,885,540  | 7,851,384  | 5,597,197  |
| 1.060 All Other Operating Revenue  | 1,899,086   | 1,592,889  | 4,650,102  | 3,356,562  | 1,763,151  | 1,769,871  | 1,776,726  | 1,783,718  |
| 1.070 Total Revenue  | 66,118,864  | 65,864,309 | 70,828,193 | 72,160,254 | 71,813,164 | 73,528,956 | 75,316,377 | 76,486,865 |
| 2.040 Operating Transfers-In   | 81,563      | 594,150    |            |            |            |            |            |            |
| 2.050 Advances-In  | 2,322,466   | 2,113,895  | 1,202,161  | 191,267    | 400,000    | 400,000    | 400,000    | 400,000    |
| 2.060 All Other Financial Sources  | 286,362     | 448,527    | 961,286    |            |            |            |            |            |
| 2.070 Total Other Financing Sources  | 2,690,391   | 3,156,572  | 2,163,447  | 191,267    | 400,000    | 400,000    | 400,000    | 400,000    |
| 2.080 Total Revenues and Other Financing Sources                             | 68,809,255  | 69,020,881 | 72,991,640 | 72,351,521 | 72,213,164 | 73,928,956 | 75,716,377 | 76,886,865 |
| 3.010 Personnel Services   | 33,389,497  | 30,299,357 | 29,076,864 | 29,041,903 | 28,953,975 | 29,928,752 | 30,000,812 | 30,096,621 |
| 3.020 Employees' Retirement/Insurance Benefits                               | 13,267,055  | 11,701,747 | 11,470,203 | 11,362,778 | 11,755,114 | 12,214,521 | 12,710,680 | 13,246,532 |
| 3.030 Purchased Services   | 19,375,754  | 22,350,326 | 26,557,278 | 26,458,687 | 27,119,107 | 27,573,616 | 28,037,216 | 28,537,216 |
| 3.040 Supplies and Materials   | 1,449,608   | 996,931    | 1,223,038  | 1,399,511  | 1,440,095  | 1,481,897  | 1,524,953  | 1,569,953  |
| 3.050 Capital Outlay   | 11,033      |            | 1,623,128  | 500,000    | 500,000    | 500,000    | 500,000    | 500,000    |
| 4.010 Debt Service: All Principal (Historical)                               | 156,287     | 160,580    | 165,082    |            |            |            |            |            |
| 4.050 Debt Service: Principal - HB 264 Loans                                 |             |            |            | 210,082    | 214,802    | 219,750    | 229,939    | 230,000    |
| 4.055 Debt Service: Principal - Other  |             |            |            | 1,600,000  |            |            |            |            |
| 4.060 Debt Service: Interest and Fiscal Charges                              | 66,553      | 59,326     | 70,240     | 109,323    | 75,407     | 66,262     | 56,802     | 50,000     |
| 4.300 Other Objects  | 715,992     | 705,227    | 681,512    | 667,407    | 674,319    | 681,299    | 688,349    | 695,449    |
| 4.500 Total Expenditures   | 68,431,779  | 66,273,494 | 70,867,345 | 71,349,691 | 70,732,819 | 72,666,096 | 73,748,751 | 74,925,771 |
| 5.010 Operational Transfers - Out  | 701,643     | 1,199,084  | 610,354    | 700,000    | 700,000    | 700,000    | 700,000    | 700,000    |
| 5.020 Advances - Out   | 2,007,078   | 1,715,038  | 1,387,909  | 400,000    | 400,000    | 400,000    | 400,000    | 400,000    |
| 5.030 All Other Financing Uses   |             | 88         |            |            |            |            |            |            |
| 5.040 Total Other Financing Uses   | 2,708,721   | 2,914,210  | 1,998,263  | 1,100,000  | 1,100,000  | 1,100,000  | 1,100,000  | 1,100,000  |
| 5.050 Total Expenditure and Other Financing Uses                             | 71,140,500  | 69,187,704 | 72,865,608 | 72,449,691 | 71,832,819 | 73,766,096 | 74,848,751 | 76,025,771 |
| 6.010 Excess Rev & Oth Financing Sources over(under) Exp & Oth Financing     | (2,331,245) | (166,823)  | 126,032    | (98,170)   | 380,345    | 162,860    | 867,626    | 861,094    |
| 7.010 Beginning Cash Balance   | 4,021,289   | 1,690,044  | 1,523,221  | 1,649,253  | 1,551,083  | 1,931,428  | 2,094,288  | 2,961,914  |
| 7.020 Ending Cash Balance  | 1,690,044   | 1,523,221  | 1,649,253  | 1,551,083  | 1,931,428  | 2,094,288  | 2,961,914  | 3,823,008  |
| 8.010 Outstanding Encumbrances   | 441,728     | 738,081    | 1,131,530  | 750,000    | 750,000    | 750,000    | 750,000    | 750,000    |
| 10.010 Fund Balance June 30 for Certification of Appropriations              | 1,248,316   | 785,140    | 517,723    | 801,083    | 1,181,428  | 1,344,288  | 2,211,914  | 3,073,008  |
| 12.010 Fund Bal June 30 for Cert of Contracts, Salary Sched, Oth Obligations | 1,248,316   | 785,140    | 517,723    | 801,083    | 1,181,428  | 1,344,288  | 2,211,914  | 3,073,008  |
| 15.010 Unreserved Fund Balance June 30                                       | 1,248,316   | 785,140    | 517,723    | 801,083    | 1,181,428  | 1,344,288  | 2,211,914  | 3,073,008  |

Source: ODE

## **Client Response**

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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, revisions were made to the audit report.



Date: March 23, 2015  
RE: Client Response to the Performance Audit

To Auditor Yost:

Middletown City Schools has been working with the State Auditor's Office on a Performance Audit of the District since August 2014. Many meetings, conversations, electronic communications and research has cooperatively taken place between both the auditors and District for the Auditing Team to come to their conclusions for their performance audit report. We the District are offered the opportunity to write a client response to their report.

The district worked with the auditors to determine which school districts should be included as our Primary Peers for base lining the data to determine how we compared to this group of school districts. The peer districts in this report are a good benchmark for our District. Because transportation at MCSD is handled by an outside contractor the state did use a different set of peers for analyzing transportation. The state also used a more regional set of peers for benchmarking compensation, benefits and collective bargaining agreements. We are fine with all three sets of peer groups for this report.

In the State's final report they gave us seven recommendations along with two issues of further study, I will discuss each item independently.

**Recommendations:**

**R.1:** Eliminate 35.0 full-time equivalent (FTE) general education teacher positions saving \$1,703,700.

**MCSD Response:** The data used in the report was from the 2013-2014 school year. We have concluded per appendix B, table B-1 that the auditors arrived at this recommendation by combining the general education teachers and the other certificated to come up with the elimination 35 FTE teachers. In this finding we also see that we are under staffed by 7.9 FTEs for all other teachers which is not included in their recommendations. When we began this 2014-2015 school year staff positions were eliminated and reduced. We currently have 6 less FTE teaching positions this year. We do have a collective bargaining agreement that specifies the maximum number of students that management will try to maintain per classroom which will affect the number of teachers we employee. If we exceed the number of students per the contract after the 10<sup>th</sup> day of the each new school year we are then required to pay our teachers and "overload" payment per student per day.



**R.2:** Eliminate 11.0 FTE Education Service Personnel (ESP) positions saving \$750,700.

**MCS D Response:** The data used in the report was from the 2013-2014 school year. When we began this 2014-2015 school year staff positions were eliminated and reduced. We currently have 2 less FTE teaching positions this year. We do have a collective bargaining agreement that specifies the maximum number of students that management will try to maintain per classroom which will affect the number of teachers we employ. If we exceed the number of students per the contract after the 10<sup>th</sup> day of the each new school year we are then required to pay our teachers and “overload” payment per student per day.

**R.3:** Eliminate 4.0 FTE other professional-educational positions saving \$353,900.

**MCS D Response:** The data used in the report was from the 2013-2014 school year. When we began this 2014-2015 school year staff positions were eliminated and reduced. We currently have 19 less FTE teaching positions this year. We do have a collective bargaining agreement that specifies the maximum number of students that management will try to maintain per classroom which will affect the number of teachers we employ. If we exceed the number of students per the contract after the 10<sup>th</sup> day of the each new school year we are then required to pay our teachers and “overload” payment per student per day.

**R.4:** Evaluate the determination of special education support staff levels.

**MCS D Response:** The district does not have any staff members in the “Attendant” position as they were coded incorrectly in EMIS and have been changed to the Instructional Paraprofessional Assignment. Additionally, for this 2014-2015 school year 7 Paraprofessionals were not replaced from last year. We can expect to see adjusted staffing levels and correct job codes in the upcoming school year as well.

**R.5:** Reduce severance payouts saving \$91,400.

**MCS D Response:** Severance payouts are determined by the two collective bargaining agreements and cannot be changed without negotiating these changes. Management also realizes that many of the financial items within the bargaining agreements have been tied to previous negotiations. Through the negotiations process various scenarios are discussed to determine the most competitive way to pay our employees, retain our employees and to compete for future employees. Correcting or reducing the severance payouts could lead to unintended consequences that could cost out taxpayers more.

**R.6:** Implement a comprehensive sick leave policy.

**MCS D Response:** The district is currently working with Ohio School Boards Association (OSBA) in reviewing all of the district’s policies and procedures and upon completion of this OSBA will be working with the district to implement new employee handbooks. Within the handbooks sick leave procedures, policies and practices will be addressed.



**R.7:** Improve T-Form reporting.

**MCS D Response:** Our Business Manager has corrected this problem while working with our transportation service provider to ensure accuracy in all future reporting. We will continue to monitor these reports prior to District approvals.

**Issues of Further Study:**

**AOS:** Evaluate Professional/Legal Services Fees per Pupil (School Year 2013-2014):

|                             | MCS D       | Peer<br>Average | Difference | % Difference |
|-----------------------------|-------------|-----------------|------------|--------------|
| Professional/Legal Services | \$<br>39.19 | \$<br>31.80     | \$<br>7.39 | 23.20%       |

**MCS D Response:** The district has reviewed our legal services expenses and discussed the option of looking for alternatives but has decided to maintain its current relationship with legal counsel and find ways to reduce costs while working with them. These services and costs will be evaluate again towards the end of this calendar year.

**AOS:** Pupil Transportation Support Services Costs per Pupil (School Year 2013-2014):

|                               | MCS D        | Peer<br>Average | Difference   | % Difference |
|-------------------------------|--------------|-----------------|--------------|--------------|
| Pupil Transportation Services | \$<br>654.24 | \$<br>415.33    | \$<br>238.91 | 57.50%       |

**MCS D Response:** The District recognizes the fact that our transportation costs are higher than our transportation peers (as presented) but we also recognize that this did not include other pertinent information as to why our costs may be higher. For example, we have an extremely large number of students we transport that attend school buildings other than our own (charter, community and parochial schools), the configuration of our school district (mostly neighborhood type) could be different than that of our peers thus costing us more, the cost of transporting special needs students could dramatically impact the overall cost of transportation, our transportation cost are all inclusive within our general fund account while other peer districts may not be purchasing new buses and equipment from their general fund, and finally field trip expenses also come from our general fund while other districts may choose to charge these expenses elsewhere.

In summary, this performance is a tool the district can and will use to determine ways to reduce costs as we continue to monitor and improve the district finances. This report does report financial opportunities but does not individually recognize all of the area to which we are below our peer groups including lower than average administrative staff, office/clerical staff, and other staff. This report is also using data from the 2013-2014 school year and does not recognize the cuts and reductions that have



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taken place this current school year which includes 23 FTEs of staffing, payroll and benefit savings from a large retirement pool from the 2013-2014 school year, and new 3 year contracts from both our MTA and MCEA unions. Each school district is unique in many ways which makes it a very difficult and challenging to produce these types of reports without fully understanding the dynamics of a school district and local decision processes.

We do appreciate the State performing and paying for this audit as it has given the administration team opportunities to learn more about our District and to find ways of improving. We look forward to meeting with the auditing team in a year to review this report again and then analyzing the changes we made because of it and what we learned about ourselves.

Randall R. Bertram, Treasurer/CFO

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# Dave Yost • Auditor of State

**MIDDLETOWN CITY SCHOOL DISTRICT**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 9, 2015**