MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY

PERFORMANCE AUDIT

OCTOBER 2016

Dave Yost • Auditor of State

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Dave Yost • Auditor of State

To the residents, elected officials, management, and stakeholders of the Madison Local School District,

In consultation with 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 and management. Functional areas selected for 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,

Dave Yost

Dave Yost
Auditor of State
October 13, 2016

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Executive Summary

Purpose and Scope of the Audit

In consultation with the Ohio Department of Education (ODE), the Auditor of State (AOS) determined that it was appropriate to conduct a performance audit of the Madison Local School District (MLSD or the District) pursuant to Ohio Revised Code (ORC) § 3316.042. The purpose of this performance audit was to improve MLSD's financial condition through an objective assessment of economy, efficiency, and/or effectiveness of the District's operations and management. See **Background** for a full explanation of the District's financial condition.

In consultation with the District, the Ohio Performance Team (OPT) selected the following scope areas for detailed review and analysis: Open Enrollment, Financial Management, Human Resources, Facilities, Transportation, and Food Service. See **Appendix A: Scope and Objectives** for detailed objectives developed to assess operations and management in each scope area.

Performance Audit Overview

Performance audits provide 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.

The United States Government Accountability Office develops and promulgates Government Auditing Standards that establish 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 required 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.

Audit Methodology

To complete this performance audit, auditors gathered data, conducted interviews with numerous individuals associated with the areas of District operations included in the audit scope, and reviewed and assessed available information. Assessments were performed using criteria from a number of sources, including:

- Peer districts;
- Industry standards;

- Leading practices;
- Statutes; and
- Policies and procedures.

In consultation with the District, three sets of peer groups were selected for comparisons contained in this report. "Primary Peers" were selected for general, District-wide comparisons. This peer set was selected from a pool of demographically similar districts with relatively lower per pupil spending and higher academic performance. A "Local Peers" set was selected for a comparison of compensation, benefits, and collective bargaining agreements, where applicable. This peer set was selected specifically to provide context for local labor market conditions. Finally, a "Transportation Peers" set was selected for transportation operating and spending comparisons. This peer set was selected specifically for transportation operational comparability and included only those districts with a similar size in square miles and population density; two significant factors that impact transportation efficiency. **Table 1** shows the Ohio school districts included in these peer groups.

Table 1: Peer Group Definitions

Primary Peers
• Dover City School District (Tuscarawas County) • Elida Local School District (Allen County) • Geneva Area City School District (Ashtabula County) • Jackson City School District (Jackson County) • Louisville City School District (Stark County) • Northeastern Local School District (Clark County) • Tiffin City School District (Seneca County) • Wapakoneta City School District (Auglaize County) • Western Brown Local School District (Brown County) • Wilmington City School District (Clinton County)
Local Peers (Compensation, Benefits, and Bargaining Agreements)
• Geneva Area City School District (Ashtabula County) • Painesville City School District (Lake County) • Perry Local School District (Lake County)
Transportation Peers
• Clark-Shawnee Local School District (Clark County) • Dover City School District (Tuscarawas County) • Tiffin City School District (Seneca County)

Where reasonable and appropriate, peer districts were used for comparison. However, in some operational areas industry standards or leading practices were used for primary comparison. Sources of industry standards or leading practices used in this audit include: the Government Finance Officers Association (GFOA), the Ohio Department of Administrative Services (DAS), the Ohio Department of Education (ODE), the Ohio State Employment Relations Board (SERB), the School Nutrition Association (SNA), and the U.S. Environmental Protection Agency (EPA). District policies and procedures as well as pertinent laws and regulations contained in the Ohio Administrative Code (OAC) and the Ohio Revised Code ORC) were also assessed.

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 Madison Local School District for their cooperation and assistance throughout this audit.

Noteworthy Accomplishments

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

- **Operating Expenditures:** The District reduced total General Fund operating expenditures from fiscal year (FY) 2014-15 by approximately $284,500, or 1.1 percent, in FY 2015-16. This reduction was primarily the result of reduced expenditures for purchased services and supplies and materials.

- **Open Enrollment:** The District realized a net positive impact of approximately $178,200 for providing education to 243 open enrolled students in FY 2014-15. This net positive impact was the result of the practice of limiting the number of open enrolled students accepted into the District to mirror the available teacher and classroom capacity otherwise needed to educate the resident student population.

- **Financial Communication:** The District actively disseminates financial information through its website, including Board of Education minutes, annual audited financial reports, popular annual financial reports, and five-year financial forecasts. Additionally, the Treasurer submits financial reports to the Board of Education on a monthly basis.

- **Staffing:** The District's FY 2015-16 staffing levels were lower than the peer average and/or industry benchmarks for all employee position categories, including personnel for operational areas such as custodial, maintenance, and food service (see **Table B-2** in **Appendix B**). Although District-wide staffing was below benchmarked levels, staffing reductions beyond the respective benchmarks were recommended strictly as a result of the District's projected deficit financial condition (see **R.4**, **R.5**, and **R.6**). The comparatively low staffing levels show that the District has been proactive in controlling labor costs, which represented 58.9 percent of total operating expenditures in FY 2015-16.

- **Compensation:** Salaries for certificated employees were consistent with the local peer average when projected over the course of a 30-year career (see **Appendix B**). The comparatively consistent compensation levels show that the District has been proactive in controlling labor costs, which represented 58.9 percent of total operating expenditures in FY 2015-16.

Summary of Recommendations

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

Table 2: Summary of Recommendations

Recommendations		Savings
R.1	**Establish formal open enrollment capacity limits**	N/A
R.2	**Improve strategic planning and budgeting practices**	N/A
R.3	**Eliminate General Fund subsidy of extracurricular activities**	$355,400
R.4	**Reduce 2.0 FTE administrative positions**	$171,400
R.5	**Reduce 2.5 FTE office/clerical positions**	$88,900
R.6	**Reduce 1.5 FTE ESP teacher positions**	$107,800
R.7	**Renegotiate collective bargaining agreement provisions**	$62,600
R.8	**Reduce employer cost of health insurance**	$132,400
R.9	**Implement an energy management program**	$66,000
R.10	**Enhance internal control measures for T-Form reporting**	N/A
R.11	**Procure fuel using the DAS cooperative purchasing program**	$11,400
Cost Savings Adjustments [1]		($5,000)
Total Cost Savings from Performance Audit Recommendations		**$990,900**

[1] FTE reductions identified in **R.4** through **R.6** would reduce savings identified in **R.8**.

Table 3 shows the District's ending fund balances as projected in its May 2016 five-year forecast after accounting for adjustments based on FY 2015-16 actuals (see **Table 5** and **Table 6**). 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.

Table 3: Financial Forecast with Performance Audit Recommendations

	FY 2015-16 (Actual)	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Original Ending Fund Balance	**$1,521,539**	**$1,798,860**	**$770,780**	**($998,319)**	**($3,553,129)**
Cumulative Balance of Performance Audit Recommendations	**N/A**	**$396,950**	**$1,387,850**	**$2,775,700**	**$4,163,550**
Revised Ending Fund Balance	**$1,521,539**	**$2,195,810**	**$2,158,630**	**$1,777,381**	**$610,421**

Source: MLSD, ODE, 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, 50.0 percent of the total annual cost savings for **R.3**, **R.4**, **R.5**, **R.6**, and **R.9** have been applied to FY 2016-17 to assume a mid-year implementation of these recommendations. Total annual cost savings have been applied to FY 2017-18 through FY 2019-20 only.

As shown in **Table 3**, implementing the performance audit recommendations would allow the District to fully address the deficits projected in the final two years of the forecast period.

It is possible that in pursuing the options necessary to balance the budget and achieve fiscal stability, the District could face the unintended consequence of reductions in future federal aid and/or the need to repay federal funds previously received, due to inability to meet federal maintenance of effort (MOE) requirements. Federal funding is designed to supplement local operations within specific program areas such as Title I, Title II, and IDEA Part B. Because this funding is meant to be supplemental, MOE requirements are put into place to ensure that all schools maintain an acceptable level of local spending rather than shifting to an over-reliance on federal funding, also referred to as supplanting.

Federal funds are supplemental to District operations and pursuit of these supplemental funds does not alleviate the obligation to maintain a balanced budget. In exercising the responsibility to maintain a balanced budget, the District will need to critically evaluate the potential impact of planned changes on program expenditures and/or census/enrollment (i.e., the two major inputs used to calculate MOE).

ODE is charged with monitoring the compliance of school districts with MOE requirements and is also in a position of working with districts to facilitate seeking a waiver from the US Department of Education, where available within the grant guidelines, when certain conditions are evident.[1] Two such conditions specific to Title I include:

- An exceptional or uncontrollable circumstance such as natural disaster; and
- A precipitous decline in financial resources (e.g., due to enrollment or loss of tax revenue).

The District should pursue necessary steps to balance, achieve, and maintain long-term fiscal stability while working with ODE to minimize any unnecessary, unforeseen consequences, including seeking a waiver of MOE requirements, if available.

[11] IDEA Part B does not have a MOE waiver option.

Background

On January 20, 2015, the Auditor of State (AOS), in consultation with the Ohio Department of Education (ODE), determined that it was appropriate to conduct a performance audit of MLSD. This determination was the result of the District's forecasted financial condition; namely, expenditures outpacing revenue in four of the five years in the forecast period and the resulting increased growth of negative year-end fund balances from FY 2017-18 through FY 2019-20. **Table 4** shows MLSD's total revenues, total expenditures, results of operations, beginning and ending cash balances, and ending fund balances as projected in the District's October 2015 five-year forecast. This information is an important measure of the financial health of the District and serves as the basis for identification of fiscal distress conditions, possibly leading to formal designation by AOS and ODE.

Table 4: MLSD Financial Condition Overview (October 2015)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Total Revenue	$25,185,336	$25,293,402	$25,337,577	$25,381,967	$25,426,571
Total Expenditure	$25,178,807	$25,896,158	$26,679,489	$27,485,132	$28,337,480
Results of Operations	**$6,529**	**($602,756)**	**($1,341,912)**	**($2,103,165)**	**($2,910,909)**
Beginning Cash Balance	$1,869,046	$1,875,575	$1,272,819	($69,093)	($2,172,258)
Ending Cash Balance	**$1,875,575**	**$1,272,819**	**($69,093)**	**($2,172,258)**	**($5,083,167)**
Outstanding Encumbrances	$1,063,591	$1,063,591	$1,063,591	$1,063,591	$1,063,591
Ending Fund Balance	**$811,894**	**$209,228**	**($1,132,684)**	**($3,235,849)**	**($6,146,758)**

Source: ODE

As shown in **Table 4**, the District projected progressively larger year-end fund balance deficits for the final three years of the forecast period.

In May 2016, MLSD released an updated financial forecast which projects a slightly improved financial condition. **Table 5** summarizes this forecast, showing total revenues, total expenditures, results of operations, beginning and ending cash balances, and year-ending fund balances.

Table 5: MLSD Financial Condition Overview (May 2016)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Total Revenue	$25,235,336	$25,330,642	$25,374,817	$25,419,207	$25,463,811
Total Expenditure	$25,078,807	$25,638,155	$26,402,897	$27,188,306	$28,018,621
Results of Operations	**$156,529**	**($307,513)**	**($1,028,080)**	**($1,769,099)**	**($2,554,810)**
Beginning Cash Balance	$1,869,046	$2,025,575	$1,718,062	$689,982	($1,079,117)
Ending Cash Balance	**$2,025,575**	**$1,718,062**	**$689,982**	**($1,079,117)**	**($3,633,927)**
Outstanding Encumbrances	$1,063,591	$1,063,591	$1,063,591	$1,063,591	$1,063,591
Ending Fund Balance	**$961,984**	**$654,471**	**($373,609)**	**($2,142,708)**	**($4,697,518)**

Source: ODE

As shown in **Table 5**, the District projects a slightly improved financial condition in its most recent five-year forecast as the expected deficits in the final three years are reduced. The deficit reductions are attributable to a projected decrease in total expenditures, as total projected revenue effectively remained constant between the October 2015 and May 2015 forecasts. Specifically, the reduced expenditure levels are primarily the result of a projected decrease in the rate of growth of health care premiums.

Subsequent to the release of the May 2016 five-year forecast and prior to the closing of FY 2015-16, the District received a significant influx of unanticipated revenue in the form of Catastrophic Cost Reimbursement from ODE, in the amount of $500,808.[2] As a result, the District's financial condition improved moderately in comparison to the financial condition forecasted in May 2016. **Table 6** applies adjustments resulting from FY 2015-16 actual financial results to total revenues, total expenditures, results of operations, beginning and ending cash balances, outstanding encumbrances, and year-end fund balances presented in the May 2016 five-year forecast. This analysis shows the effect that the actual change in cash position for FY 2015-16 will have in the remaining years of the forecast period.

Table 6: MLSD Financial Condition Overview (May 2016)

	FY 2015-16 (Actual)	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Total Revenue	$25,808,759	$25,330,642	$25,374,817	$25,419,207	$25,463,811
Total Expenditure	$24,507,843	$25,638,155	$26,402,897	$27,188,306	$28,018,621
Results of Operations	**$1,300,916**	**($307,513)**	**($1,028,080)**	**($1,769,099)**	**($2,554,810)**
Beginning Cash Balance	$1,869,048	$3,169,964	$2,862,451	$1,834,371	$65,272
Ending Cash Balance	**$3,169,964**	**$2,862,451**	**$1,834,371**	**$65,272**	**($2,489,538)**
Outstanding Encumbrances	$1,648,425	$1,063,591	$1,063,591	$1,063,591	$1,063,591
Ending Fund Balance	**$1,521,539**	**$1,798,860**	**$770,780**	**($998,319)**	**($3,553,129)**

Source: MLSD and ODE

As shown in **Table 6**, including adjustments for actual FY 2015-16 operating results to the most recent forecast eliminates the expected deficit projected for FY 2017-18 and reduces the severity of deficits projected for the final two years of the forecast period. Though this presents an improved financial condition, the District is still expected to face a cumulative deficit of over $3.5 million for FY 2019-20.

Revenue is not directly controlled by school districts, but instead by federal and State laws, and support from local residents. ODE uses the Local Tax Effort Index to compare means-adjusted taxpayer support between school districts in Ohio. This index reflects the extent of effort the residents of a school district make in supporting public elementary and secondary education in relation to their ability to pay. A local tax effort of 1.0 represents the State-wide average of all school districts. The District's local tax effort was 0.8077 for FY 2014-15 while the primary peer average was 0.84603, signifying that it receives 4.5 percent less means-adjusted local taxpayer support than the primary peers.

[2] The Catastrophic Cost Program enables traditional school districts, community schools, and joint vocational school districts to submit reimbursement requests to ODE for costs exceeding the threshold to educate K-12 students with disabilities in Categories 2-6.

Table 7 shows the District's levy history from August 2009 through November 2015. This information assists in determining the availability of additional local resources over time.

Table 7: Local Tax Levy History

Year-Month	Type of Levy	Tax Rate	Result
2009-August	Emergency Renewal	1.68 mills	Pass
2012-August	**Additional Operating**	**4.90 mills**	**Fail**
2013-November	General Permanent Improvement (PI) Renewal	1.00 mill	Pass
2014-May	**Additional Operating and General PI**	**4.99 mills**	**Fail**
2014-November	Emergency Renewal	1.96 mills	Pass

Source: Ohio Secretary of State and Lake County Board of Elections

As shown in **Table 7**, the District had continually passed renewal levies since 2009. However, within the same time period, the District had been unsuccessful in passing levies for additional revenue.

Eliminating future deficits can be accomplished by decreasing expenditures, increasing revenue, or a combination of both. Management control over operating decisions can directly affect expenditures. Consequently, the District's management, operations, and resulting expenses were examined by OPT in an effort to identify areas of potential cost savings. If the District's revenue increases, it may be able to address projected deficits without making significant reductions to operations.

Recommendations

R.1 Establish formal open enrollment capacity limits

Open enrollment was passed into law by the Ohio General Assembly as part of the Omnibus Educational Reform Act of 1989, Senate Bill 140. Initially, students were only allowed to enroll into adjacent school districts. However, in July 1998, the General Assembly passed House Bill 497 which permitted students to enroll in any school district in the State and eliminated the authorization for a school district to object to the enrollment of a district student in another school district that allows open enrollment.

ORC § 3313.98 requires all school districts to adopt a resolution establishing a policy that either entirely prohibits open enrollment into their district, permits open enrollment of all students, or permits open enrollment of students only from adjacent districts. MLSD has adopted a resolution permitting open enrollment of all students.

Further, ORC § 3313.98 requires school districts with an open enrollment policy permitting the enrollment of students from all districts to have additional procedures. These include:

- "Application procedures, including deadlines for application and for notification of students and the superintendent of the applicable district whenever an adjacent or other district student's application is approved.
- Procedures for admitting adjacent or other district applicants free of any tuition obligation to the district's schools, including, but not limited to:
  - The establishment of district capacity limit by grade level, school building, and education programs;
  - A requirement that all native students wishing to be enrolled in the district will be enrolled and that any adjacent or other district students previously enrolled in the district shall receive preference over first-time applicants; [and]
  - Procedures to ensure that an appropriate racial balance is maintained in the district schools."

MLSD's open enrollment policy states that "The Board of Education shall permit the enrollment of students from any Ohio district in a school or program of this District, provided each enrollment is in accordance with laws and regulations of the State concerning Inter-District Open Enrollment, the provisions of this policy, and the administrative guidelines established to implement this policy." The policy includes definitions for the home district, open enrollment, district student, other-district, other-district student, tuition student, program, program size, racially isolated building, and racial balance and how to maintain it. Although the District's open enrollment policy conforms to the Board requirements in ORC § 3313.98, it has not established formal capacity limits by grade level, school building, and/or educational program.

Hubbard Exempted Village School District (HEVSD) created administrative guidelines to define its open enrollment policy. Specifically, HEVSD requires each building principal to "notify the Superintendent by March 1st [of] the programs and classrooms which have space available for students from another Ohio district and for tuition students." Further, the "number of openings in a particular program for students from other Ohio districts will be determined by optimum size for a particular program, classroom/school building, or grade level which is the number of students that can be accommodated without increasing District expenditures for staff or equipment." HEVSD posts on its website the grades for which it is accepting open enrollment applications.

While MLSD limits open enrollment in practice (see **Noteworthy Accomplishments**), the District should establish formal capacity limits by grade level, school building, and/or educational program for the number of open enrollment students accepted into the District and define those limits in a Board policy or administrative guideline. Following this policy would help to predetermine, annually, the number of open enrollment students to accept based on openings in each grade level, school building, and educational program, and will help the District ensure that it continues to benefit from the reasonable influx of open enrolled students. Further, it would help the District define staffing levels and space availability without increasing expenditures.

R.2 Improve strategic planning and budgeting practices

During the course of the audit, the Board and District administration began the drafting process of a formal, comprehensive strategic plan that would serve to guide long-term operational and programming decisions. However, initial drafts of this plan did not yet link the annual budget to formal goals, objectives, and/or performance measures. Although the District intends to establish these linkages, this has not yet been completed.

Establishment of Strategic Plans (Government Finance Officers Association (GFOA), 2005) indicates that governments should develop a strategic plan in order to provide a long-term perspective for service delivery and budgeting. The strategic plan should establish 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. The 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 annually.

In addition to its strategic planning efforts, the District's annual budgeting practices could be further enhanced by including all relevant stakeholders to the budget development process. Although building principals are provided with monthly budget reports, budget development is carried out exclusively by the Treasurer and Superintendent on an informal basis, without formal involvement from building principals or director-level operations personnel.

Best Practices in School Budgeting (GFOA, 2014) indicates that a strategic budgeting process should involve key participants, such as executive leaders from different functions within a district. Further, a shared effort between the finance department and the instructional departments will help ease the task of analyzing the comparative worth of different goals or programs.

MLSD should improve its strategic planning and budgeting efforts by linking its stated goals and objectives to financial resources, while also increasing stakeholder involvement. In doing so, the ability of the strategic plan to guide program and funding decisions will be enhanced. Without a goal and resource oriented strategic plan based on input from key financial, operational, and instructional participants, the District is at risk of not fully evaluating the relationship between its spending decisions and program outcomes. This, in turn, increases the risk of inefficiently and/or ineffectively addressing District needs.

R.3 Eliminate General Fund subsidy of extracurricular activities

In FY 2014-15, the District expended approximately $852,200 on student extracurricular activities, which included the salaries and benefits of directors, coaches, advisors, supplies and materials, transportation services, awards and prizes, and other miscellaneous expenditures. A portion of these expenditures were offset by generating revenue of approximately $496,800 from receipts for admissions, sales, dues and fees, bookstore sales, and other extracurricular activity. As a result, the District incurred a net cost for student extracurricular activities in FY 2014-15 of approximately $355,400. In turn, the amount of the net cost of extracurricular activities represents the amount of subsidy from the General Fund.

Table 8 shows a comparison of the District's FY 2014-15 student extracurricular activity net cost per pupil to the local peer average. This comparison is important for determining whether the District's net cost for student extracurricular activity programs was consistent with similar districts in the region.

Table 8: Student Extracurricular Activity Net Cost Comparison

	MLSD	Local Peer Average	Difference	% Difference
Student Extracurricular Activities Net Cost	$355,418	$341,878	$13,540	4.0%
Number of Pupils	2,722.4	2,003.7	718.7	35.9%
Net Cost per Pupil	**$130.55**	**$170.62**	**($40.07)**	**23.5%**

Source: MLSD and local peers

As shown in **Table 8**, the District's student extracurricular activity net cost per pupil was lower than the local peer average. It is common for school districts in Ohio to subsidize extracurricular costs with General Fund money; however, while the District subsidizes a lower per pupil amount relative to the peers, the existence of a net cost places a burden on the General Fund equal to the amount of the net cost. Given the severity of the forecasted deficit conditions (see **Table 6**) the District should evaluate all available options to reduce expenditures and/or increase revenue for student extracurricular activities.

Table 9 shows a comparison of FY 2014-15 extracurricular activity expenditures by type of activity between the District and the local peers. This analysis is important as it identifies areas that may be disproportionately driving extracurricular costs.

Table 9: Per Pupil Extracurricular Expenditures by Activity Type

	MLSD	Local Peer Average	Difference	% Difference
Number of Pupils	2,722.4	2,003.7	718.7	35.9%
Academic-Oriented	$191,519	$64,586	$126,933	196.5%
Expenditures per Pupil	**$70.35**	**$32.23**	**$38.12**	**118.3%**
Occupation-Oriented	$3,714	$6,200	($2,486)	(40.1%)
Expenditures per Pupil	**$1.36**	**$3.09**	**($1.73)**	**(56.0%)**
Sports-Oriented	$567,773	$285,218	$282,555	99.1%
Expenditures per Pupil	**$208.56**	**$142.35**	**$66.21**	**46.5%**
School and Public Service Co-Curricular Activity	$89,224	$94,668	($5,444)	(5.8%)
Expenditures per Pupil	**$32.77**	**$47.25**	**($14.48)**	**(30.6%)**
Total Expenditures	$852,230	$450,672	$401,558	89.1%
Expenditures per Pupil	**$313.04**	**$224.92**	**$88.12**	**39.2%**

Source: MLSD and local peers

As shown in **Table 9**, the highest proportion of expenditures is attributable to academic-oriented and sports-oriented activities. Further, the relative costs for both activity types are higher than the peers on a per pupil basis. As such, the District should focus cost balancing efforts on these activity types.

Table 10 shows a comparison of FY 2014-15 extracurricular activity revenue, by source, between the District and the local peers. This analysis is important as it identifies revenue sources that may be disproportionately contributing to the net cost for extracurricular activities.

Table 10: Per Pupil Extracurricular Revenue by Source

	Madison LSD	Local Peer Average	Difference	% Difference
Number of Pupils	2,722.4	2003.7	718.7	35.9%
Admissions	$86,521	$29,811	$56,710	190.2%
Revenue per Pupil	**$31.78**	**$14.88**	**$16.90**	**113.6%**
Sales	$199,799	$37,596	$162,203	431.4%
Revenue per Pupil	**$73.39**	**$18.76**	**$54.63**	**$291.1%**
Dues and Fees	$96,320	$29,830	$66,489	222.9%
Revenue per Pupil	**$35.38**	**$14.89**	**$20.49**	**137.7%**
Bookstore Sales	$558.50	$20.00	$538.50	2,692.5%
Revenue per Pupil	**$0.21**	**$0.01**	**$0.20**	**1,955.3%**
Other Extracurricular Activity	$113,614	$11,536	$102,078	884.8%
Revenue per Pupil	**$41.73**	**$5.76**	**$35.98**	**624.8%**
Total Revenue	$496,812	$108,793	$388,018	356.7%
Revenue per Pupil	**$182.49**	**$54.30**	**$128.20**	**236.1%**

Source: MLSD and local peers

As shown in **Table 10**, the District's total extracurricular activities revenue per pupil was higher than the local peer average, as well as for each individual revenue source. However, while its extracurricular activities revenue was higher relative to the peers, the District could still reduce the total net cost by further increasing extracurricular revenue.

Further analysis of the District's student extracurricular activity revenue by activity type was not feasible due to a lack of detailed financial coding of revenue receipts.[3] In determining the detail with which certain financial transactions should be coded, MLSD should consider the informational needs of the District, ODE, and other regulatory agencies. While the District records its financial transactions in accordance with USAS, analysis of its student extracurricular activity financial transactions revealed that it does not select the most detailed USAS code when recording revenue.

[3] OAC § 117-6-01 stipulates that all Ohio school districts maintain financial records in accordance with the Uniform School Accounting System (USAS) as prescribed by the USAS User Manual (ODE). USAS is a financial reporting system based upon the use of a combination of different financial dimensions (for example: fund, function, object) in order to identify the details of each financial transaction. The USAS user manual states that the use of certain dimensions is the responsibility of the school district.

In order to eliminate the General Fund subsidy, the District must increase revenue and/or decrease expenditures. This can be achieved by implementing one or more of the following:

- Increase pay to participate fees for sports;
- Increase admissions and sales;
- Increase booster club funding;
- Reduce the supplemental salary schedule; and/or
- Eliminate programs.

Making these changes would help eliminate the General Fund subsidy, allowing more resources to be dedicated to student instruction.

One specific strategy for eliminating the net cost of student extracurricular activities is to follow the pay-to-participate model of Riverside Local School District in Painesville. Riverside LSD sets its pay-to-participate fees for sports-oriented activities by equally dividing the total cost of each activity by the number of participants. By applying this fee structure to all activity types, the District could eliminate its total net cost for student extracurricular activities. However, before implementing this type of fee structure, the District should consider the relative ability to pay and the financial impact of its students in having to meet any proposed fee increases.[4]

Financial Implication: Reducing its student activity expenditures and/or increasing revenue so that the Student Extracurricular Activity Fund is self-sufficient would save the District approximately **$355,400**, annually.

R.4 Reduce 2.0 FTE administrative positions

According to *ODE EMIS Manual, Staff Employment Record* (ODE, 2015), administrators include personnel who perform management activities, such as developing broad policies for the school district and executing these policies through the direction of staff members at all levels. **Table 11** shows the District's administrative staffing per 1,000 students compared to the primary peer average for FY 2015-16. Comparing administrative staffing in relation to student population normalizes the effect of district size between MLSD and the peers.

[4] The 2012 median income for Madison LSD residents was $32,903, while Riverside LSD's TY 2012 median income was $42,751.

Table 11: Administrative Staffing Comparison

	MLSD		Primary Peer Avg.	Difference	
Students Educated [1]		2,982.00	2,805.88		176.12
Students Educated (thousands)		2.98200	2.80588		0.17612
	FTEs	**FTE per 1,000 Students**	**Peer FTEs per 1,000 Students**	**Difference per 1,000 Students**	**Total Above/ (Below) [2]**
Assistant Deputy/Associate Superintendent Assignment	1.00	0.34	0.21	0.13	0.36
Assistant Principal	5.00	1.68	0.86	0.82	2.45
Principal	4.00	1.34	1.89	(0.55)	(1.63)
Superintendent	1.00	0.34	0.36	(0.02)	(0.06)
Supervising/Managing/Directing	2.00	0.67	0.78	(0.11)	(0.34)
Treasurer	1.00	0.34	0.36	(0.02)	(0.06)
Coordinator	1.00	0.34	0.29	0.05	0.15
Director	1.00	0.34	0.70	(0.36)	(1.08)
Other Official/Administrative	0.00	0.00	0.29	(0.29)	(0.85)
Total Administrative FTEs	**16.00**	**5.39**	**5.74**	**(0.35)**	**(1.04)**

Source: MLSD and primary peers

Note: Not all primary peers were able to provide data for this analysis. As such, the primary peer average includes only Elida LSD, Louisville CSD, Northeastern LSD, Tiffin CSD, and Wilmington CSD

[1] Reflects students receiving educational services from the District and excludes the percent of time students are receiving educational services outside of the District.

[2] Represents the number of FTEs that, when added or subtracted, would bring the District's number of office/clerical FTEs per 1,000 students in line with the peer average.

As shown in **Table 11**, MLSD employed fewer administrative FTEs per 1,000 students overall. Three areas were identified, however, that showed a higher staffing level than the primary peer average: the assistant deputy/associate superintendent assignment, assistant principal, and coordinator classifications. Due to the District's financial condition, staffing recommendations were made to achieve the peer staffing ratio for all positions. Based on this, the primary area of overstaffing was the assistant principal classification, which was overstaffed by 2.45 FTEs relative to the primary peer average. Although the assistant deputy/associate superintendent and coordinator classifications exceeded the peer average, these categories were each less than 0.50 FTEs higher and did not yield a recommendation.

Because MLSD's assistant principal staffing was higher in comparison to the primary peers, further analysis was completed using a building-level methodology. **Table 12** shows MLSD's FY 2015-16 assistant principal staffing per building in comparison to the peers. Comparing staffing levels on a per building basis assists in determining if the number of buildings for MLSD and the peer districts could be a driver of higher staffing.

Table 12: Assistant Principal Building Level Staffing Comparison

	MLSD			Primary Peer Average			Difference	
	FTEs	**Buildings**	**FTE/Bldg.**	**FTEs**	**Buildings**	**FTE/Bldg.**	**FTE/Bldg.**	**FTEs**
Asst. Principal	5.00	5	1.00	2.40	5	0.48	0.52	2.60

Source: MLSD and primary peers
Note: Not all primary peers were able to provide data for this analysis. As such, the primary peer average includes only Elida LSD, Louisville CSD, Northeastern LSD, Tiffin CSD, and Wilmington CSD.

As shown in **Table 12**, MLSD employed 1.0 FTE assistant principal per building, compared to the peer average of 0.48 FTEs per building. Conservatively, MLSD could reduce 2.0 FTE assistant principal positions and maintain a staffing level in line with the peer average on a per student, and per building level basis.

Financial Implication: Reducing 2.0 FTE assistant principal positions could save approximately **$171,400** in salaries and benefits, annually. This was calculated using the lowest assistant principal salary and an average benefits ratio of 36.5 percent.[5] Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

R.5 Reduce 2.5 FTE office/clerical positions

Office/clerical personnel are responsible for general office activities or building, department, and/or administrative secretarial duties. **Table 13** shows the District's FY 2015-16 office/clerical staffing compared to the primary peer average on a per 1,000 student basis. This analysis serves as a proxy workload measure for each FTE.

Table 13: Office/Clerical Staffing Comparison

	MLSD		Primary Peer Avg.	Difference	
Students Educated [1]	2,982.00		2,805.88	176.12	
Students Educated (thousands)	2.98200		2.80588	0.17612	
	FTEs	**FTEs per 1,000 Students**	**Peer FTEs per 1,000 Students**	**Difference per 1,000 Students**	**Total FTEs Above/ (Below) [2]**
Bookkeeping	3.00	1.01	0.50	0.51	1.52
Clerical	14.57	4.89	5.81	(0.92)	(2.74)
Messenger	1.00	0.34	0.00	0.34	1.00
Records Managing	0.00	0.00	0.07	(0.07)	(0.21)
Other Office/Clerical	0.00	0.00	2.37	(2.37)	(7.07)
Total Office/Clerical FTEs	**18.57**	**6.24**	**8.75**	**(2.51)**	**(7.50)**

Source: MLSD and primary peers
Note: Not all primary peers were able to provide data for this analysis. As such, the primary peer average includes only Elida LSD, Louisville CSD, Northeastern LSD, Tiffin CSD, and Wilmington CSD.[1] Reflects students receiving educational services from the District and excludes the percent of time students are receiving educational services outside of the District.
[2] Represents the number of FTEs that, when added or subtracted, would bring the District's number of office/clerical FTEs per 1,000 students in line with the peer average.

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[5] Calculated using the FY 2015-16 actual personal services expenditures divided by the employee's retirement/insurance benefits expenditures.

As shown in **Table 13**, total office/clerical staffing was significantly below the peer average. Due to the District's financial condition, however, staffing recommendations were made to achieve the peer staffing ratio for individual positions. When individually compared on a per 1,000 students basis, the bookkeeping and messenger classifications were higher than the primary peer average. The District would need to reduce 1.5 FTE bookkeeping and 1.0 FTE messenger positions in order to achieve a staffing ratio in line with the primary peer average.

Financial Implication: Reducing 2.5 FTE office/clerical positions could save approximately **$88,900** in salaries and benefits, annually. This was calculated using the lowest bookkeeping and messenger salary and an average benefits ratio of 36.5 percent.[6] Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

R.6 Reduce 1.5 FTE ESP teacher positions

ESP teacher positions include K-8 art, music, and physical education teachers. In FY 2015-16, the District employed 10.0 FTE ESP teachers, which included 3.0 FTE art teachers, 3.5 FTE music teachers, and 3.5 FTE physical education teachers. Effective April 24, 2015, OAC 3301-35-05 was revised to state, "The local board of education shall be responsible for the scope and type of educational services in the district. The district shall employ educational service personnel to enhance the learning opportunities for all students." This revision eliminated State minimum staffing levels for ESP positions.

Table 14 shows an internal comparison of the District's ESP staffing per 100 students by building type for FY 2015-16. This comparison serves to provide an internal benchmark of the District's ESP teacher staffing levels.

Table 14: ESP Teacher Staffing Comparison

	North Elementary/South Elementary		Madison Middle School		
Students Educated		1,227.00		631.00	
Students Educated (hundreds)		12.27		6.31	
	ESP Teachers	**ESP Teachers/100 Students**	**ESP Teachers**	**ESP Teachers/100 Students**	**Difference Above/(Below)**
Art Education K-8	2.00	0.16	1.00	0.16	(0.00)
Music Education K-8	2.00	0.16	1.50	0.24	0.08
Physical Education K-8	2.00	0.16	1.50	0.24	0.08
Total ESP Teachers	6.00	0.49	4.00	0.63	0.14
Total Adjustment Needed to Equal Elementary School ESP Teacher Staff per 100 Students					1.78
Proposed ESP Reduction					**1.50**

Source: MLSD

[6] Calculated using the FY 2015-16 actual personal services expenditures divided by the employee's retirement/insurance benefits expenditures.

As shown in **Table 14**, the District allocated more ESP teachers to Madison Middle School on a per 100 student basis. The District would need to reduce 1.5 FTE ESP teachers from Madison Middle School to reach the ESP teacher staffing level at the elementary level. The selected course of action by the District is ultimately management's responsibility based on the needs and desires of the stakeholders in its community and must be balanced with the fiduciary responsibility to adapt to the financial realities and maintain a solvent operation.

Financial Implication: Reducing 1.5 FTE ESP teacher positions could save approximately **$107,800** in salaries and benefits, annually. This was calculated using the lowest ESP staff salary and an average benefits ratio of 36.5 percent.[7] Estimated savings could increase if the reduction occurs through retirement or voluntary separation of higher salaried staff.

R.7 Renegotiate collective bargaining agreement provisions

The District has negotiated collective bargaining agreements (CBAs) with the Madison Education Association (certificated CBA) and the Ohio Association of Public School Employees (OAPSE) Local 238 (classified CBA). Both of these CBAs expired during the course of the audit; the certificated CBA on August 15, 2016 and the classified CBA on June 30, 2016. An analysis of these CBAs (which took into account material changes to the new CBAs as approved by the Board) identified certain provisions that exceeded State minimum standards and/or provisions in the local peer district contracts. The following provisions exceeded the local peer district average or ORC minimum requirements:

- **Holidays:** The District's classified CBA offers 12 paid holidays to 12-month employees and eight paid holidays to employees who work less than 12 months. These levels were above the surrounding district average of 11 paid holidays for 12-month employees and lower with eight paid holidays for employees who work less than 12 months. ORC § 3319.087 states that 11-month and 12-month employees are entitled to a minimum of seven paid holidays, while 9-month and 10-month employees are entitled to six paid holidays. Direct savings from reducing the number of holidays could not be quantified; however, their reduction would increase the number of available work hours at no additional cost to the District.

- **Vacation:** The classified CBA provides employees with annual vacation accrual whereby they earn 580 vacation days over the course of a 30-year career. This exceeded the surrounding district average of 526 days and the ORC § 3319.084 minimum of 460 days. Providing employees with more vacation days could increase substitute and overtime costs. Direct savings from reducing the vacation schedule could not be quantified; however, their reduction would increase the number of available work hours at no additional cost to the District.

[7] Calculated using the FY 2015-16 actual personal services expenditures divided by the employee's retirement/insurance benefits expenditures.

- **Severance Leave Accrual and Payout:** Both CBAs allow employees to accrue 340 days of unused sick leave. In comparison, Perry LSD (Lake County) allows for a maximum accrual of 270 days, Geneva Area CSD (Ashtabula County) 320 days, and Painesville CSD (Lake County) has no limit. Further, ORC § 3319.141 details sick leave accumulation and specifies that unused sick leave shall be cumulative to 120 days. Providing an accrual in excess of State minimum levels represents the potential for increased financial liability when sick leave is paid out to retiring employees. Additionally, the District's CBAs allow certificated and classified employees to be paid for accumulated sick leave upon retirement. Specifically, the CBAs allow for payment of 68 days. In comparison, the local district's average maximum sick leave payout is 88 days for certificated employees and 68 days for classified employees. The District's sick leave payout is also higher than required by ORC § 124.39, which allows school employees to be paid for 30 days (25 percent of 120 days) of unused sick leave at retirement. Allowing employees to receive payout in excess of State minimums becomes costly at employee retirement (see **Appendix B-4**).

- **Class Size Limits:** The certificated CBA includes a provision that limits class sizes for kindergarten through twelfth grade. The certificated CBA states, "...the Board shall maintain a District average teacher-student ratio of not more than 1:25." Teachers can volunteer to be assigned two students in excess of 25 in grades K-2, 26 in grades 3-5, and 28 in grades 6-12.[8]

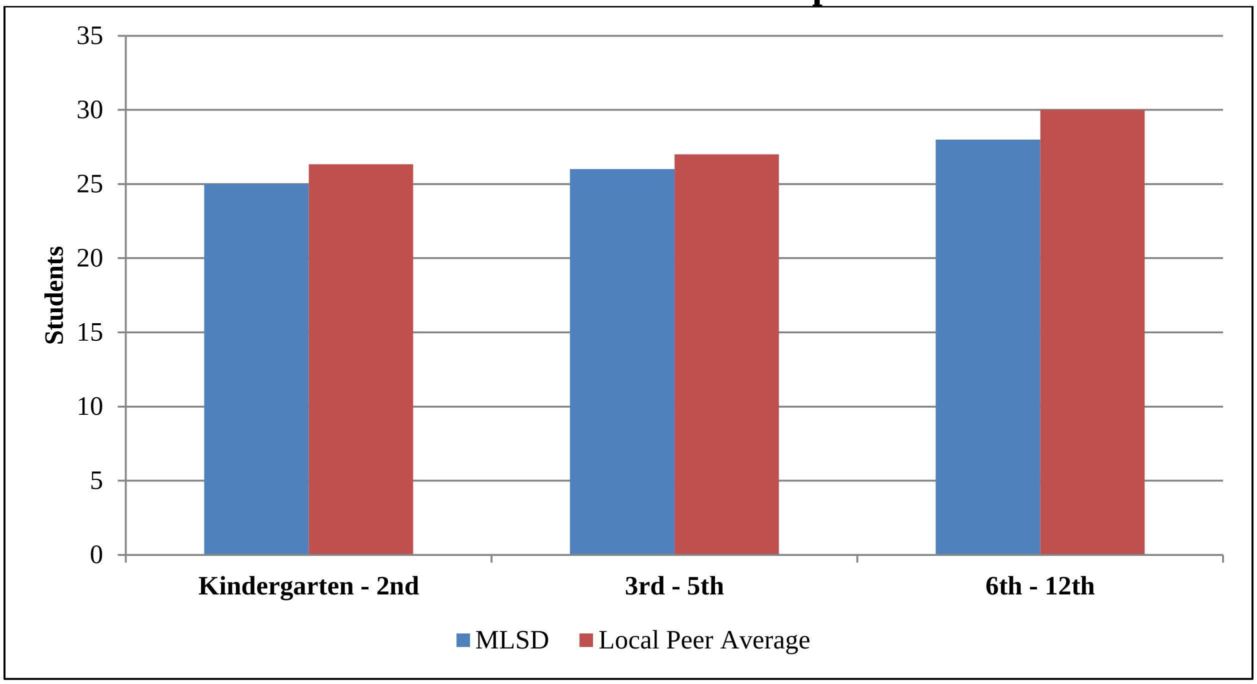
For each student in excess of the limits above, the Board will pay a stipend of $400 per student, per grading period, if total classroom enrollment is above the maximum after three weeks of placement. Payment is calculated on a per day basis.

MLSD's average general education student-teacher ratio in FY 2015-16 was 23.6:1, which is in line with the certificated CBA. Due to the District's financial condition, however, further analysis of class size limits and stipends was completed.

Chart 1 shows a comparison of MLSD's class size limits compared to the local peer average. This analysis helps to determine if the District's provisions are more generous than the peers.

[8] Class limits exclude band, chorus, and study hall.

Chart 1: Class Size Limit Comparison

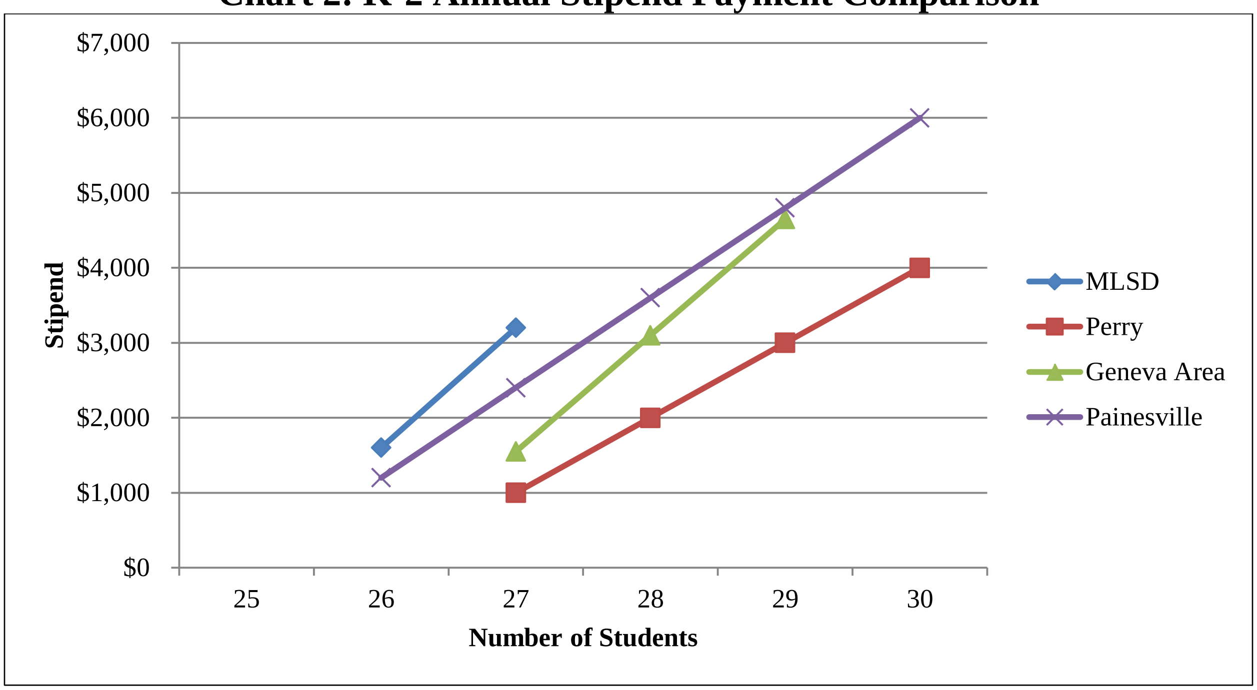


Source: MLSD and local peers

As shown in **Chart 1**, MLSD's class limits are lower than the local peer average in all three categories.

Chart 2 shows a comparison of MLSD's stipend payment rates to the peers.

Chart 2: K-2 Annual Stipend Payment Comparison



Source: MLSD and local peers

As shown in **Chart 2**, MLSD offers a greater stipend than the local peers and at a lower classroom size. MLSD begins paying kindergarten through second grade teachers when their classroom size reaches 26 students, at a rate of $1,600 per year. In comparison, Painesville CSD also begins paying teachers at 26 students, but at a lower rate of $1,200. Geneva Area CSD and Perry LSD do not begin paying teachers until classrooms reach 27 students and pay $1,550 and $1,000, respectively.

Table 15 shows the actual payments for excess students in FY 2015-16. This is important because it identifies the grade categories and limits that are causing stipends to be paid.

Table 15: Class Size Limit Payments

	Number of Students Over Limit	Annual Cost	% of Students Over Limit	Students Over Limit as % of Total Enrollment
High School	49	$19,405	31.0%	4.6%
Middle School	11	$4,496	7.2%	1.6%
Elementary	97	$38,704	61.8%	7.3%
Total	**157**	**$62,605**	**100.0%**	**5.0%**

Source: MLSD

As shown in **Table 15**, MLSD paid approximately $62,600 to teachers due to classrooms exceeding the maximum. In total, MLSD exceeded class limit sizes by 157 students in FY 2015-16, with 61.8 percent of those students and corresponding payments being attributed to elementary classrooms.

Provisions within CBAs that provide benefits beyond what is required, or typically offered in other school districts, can create an unnecessary financial burden on the District and limit management's ability to control costs. Any progress made through negotiations that would make contract provisions more cost effective would be beneficial to the District's financial position.

Reducing holidays and vacation accrual allowances requires the District to renegotiate CBA provisions that more closely match the benchmarks. Negotiating a reduction in severance payout beginning in FY 2017-18 for existing employees would result in an annual savings of $64,800 (see **Table B-4** in **Appendix B**). Additionally, the District should seek to renegotiate the certificated CBA to eliminate class size limitations and the requirement of stipends, as opposed to strictly bringing them in line with the peer level, due to the severity of its forecasted financial condition. Eliminating this provision would nullify the District's obligation to pay teachers classroom overage stipends, and improve the District's overall financial condition. Although the District's CBAs have already expired, or will expire within the forecast period, pursuing renegotiation of these changes for existing employees would have a direct impact on the forecasted financial condition. However, if the District determines that an immediate reduction in these benefits is impractical to implement, modifying these provisions for new hires may be more feasible.

<u>Financial Implication:</u> Eliminating the class size limit provision in the certificated CBA could save the District approximately **$62,600**.

R.8 Reduce employer cost of health insurance

The District procures its medical, dental, and vision insurance through the Lake County Schools Council (LCSC) which provides its members with greater insurance purchasing power by pooling their resources together to create one group. This method spreads the insurance risk out across its members rather than to a single district. LCSC offers various insurance plans tailored to each member's needs, and requires members to only offer dental and vision through the Council.

The District offers four insurance plans to employees with various levels of coverage. The plans range from the Bronze Plan, which is the least comprehensive, to Plan 3, which is the most comprehensive. MLSD's premiums generally vary based on the degree of coverage. For example, the Bronze Plan (the plan with the lowest premium) has the highest deductible, while Plan 3 (the plan with the highest premium) has the lowest deductible. Similarly, Plan 1 has the lowest co-insurance (80 percent employer; 20 percent employee), while Plan 3 has a higher co-insurance percentage (90 percent employer; 10 percent employee).

The District's insurance plan costs and employee contributions were compared to the raw data used to create the *23rd Annual Report on the Cost of Health Insurance in Ohio's Public Sector* (State Employment Relations Board (SERB, 2015). To create this report, SERB surveys public sector entities on various aspects of health insurance benefits.

Table 16 shows MLSD's total premiums for single and family medical/prescription, dental, and vision coverage, compared to the average for all reporting entities within Lake County, derived from 2015 SERB data. This comparison is important as insurance costs are recognized as sensitive to local conditions and, where possible, other local or regional plans provide the most realistic benchmarks for relative price competitiveness.

Table 16: Insurance Premium Comparison

	MLSD	SERB Avg.	Difference	% Difference
Single Medical/Prescription				
Bronze Plan	$377.76	$538.35	($160.59)	(29.8%)
Plan 1	$515.04	$538.35	($23.31)	(4.3%)
Plan 2	$579.54	$538.35	$41.19	7.7%
Plan 3	$647.44	$538.35	$109.09	20.3%
Family Medical/Prescription				
Bronze Plan	$963.16	$1,392.62	($429.46)	(30.8%)
Plan 1	$1,313.20	$1,392.62	($79.42)	(5.7%)
Plan 2	$1,477.64	$1,392.62	$85.02	6.1%
Plan 3	$1,650.74	$1,392.62	$258.12	18.5%
Dental				
Single	$33.34	$30.80	$2.54	8.2%
Family	$84.88	$84.32	$0.56	0.7%
Vision				
Single	$7.04	$7.94	($0.90)	(11.3%)
Family	$15.17	$19.13	($3.96)	(20.7%)

Source: MLSD and SERB

As shown in **Table 16**, District premium costs vary in comparison to the SERB averages. The Bronze Plan, Plan 1, and vision premiums are lower than SERB county averages, while Plan 2, Plan 3 and dental premiums are higher.

Another important factor in overall insurance costs is employee contributions. Employee contributions help to offset District costs of providing health insurance. MLSD employee contribution requirements are outlined in the CBAs. Contributions are set dollar amounts, however, for comparison purpose, employee contributions were calculated as a percentage in order to compare to SERB. **Table 17** compares MLSD's employee contributions by plan to the average for all reporting entities within Lake County. Comparing contribution levels to benchmark data provides a relative indication of the amount of insurance costs borne by employees.

Table 17: Employee Contribution Comparison

	Single			Family		
	MLSD	**SERB Avg.**	**Difference**	**MLSD**	**SERB Avg.**	**Difference**
Bronze Plan						
Medical/Prescription	1.2%	11.7%	(10.5%)	0.9%	11.9%	(10.9%)
Dental	1.2%	6.5%	(5.3%)	0.9%	2.4%	(1.4%)
Vision	1.1%	0.0%	1.1%	0.9%	0.0%	0.9%
Plan 1						
Medical/Prescription	13.4%	11.7%	1.7%	13.5%	11.9%	1.6%
Dental	13.4%	6.5%	6.9%	13.5%	2.4%	11.1%
Vision	13.5%	0.0%	13.5%	13.4%	0.0%	13.4%
Plan 2						
Medical/Prescription	13.6%	11.7%	1.9%	13.6%	11.9%	1.7%
Dental	13.6%	6.5%	7.1%	13.6%	2.4%	11.2%
Vision	13.5%	0.0%	13.5%	13.6%	0.0%	13.6%
Plan 3						
Medical/Prescription	21.1%	11.7%	9.4%	21.0%	11.9%	9.2%
Dental	21.1%	6.5%	14.6%	21.0%	2.4%	18.7%
Vision	21.0%	0.0%	21.0%	21.0%	0.0%	21.0%

Source: MLSD and SERB

As shown in **Table 17**, MLSD employee contributions increase as plans become more comprehensive. All employee contributions are higher than the SERB county average with the exception of the Bronze Plan single and family medical/prescription and dental plans.[9] Although higher premiums for more comprehensive plans are common, these costs should be offset by higher employee costs, rather than employer costs. As shown above, MLSD's plans are set up in this manner, with higher premiums corresponding with higher employee contributions.

Table 18 shows a comparison of the District's monthly cost, by plan, to SERB. This is important because it shows whether or not employee contributions are covering the additional premium costs for a more comprehensive plan.

[9] The Bronze plan was new to the District in FY 2015-16, and had zero participants. If employees choose this plan moving forward, the District should address employee contributions.

Table 18: Employer Cost Comparison

	MLSD	SERB Avg.	Difference	Employees Enrolled
Single Medical/Prescription				
Bronze Plan	$373.24	$476.00	($102.76)	0
Plan 1	$445.79	$476.00	($30.21)	2
Plan 2	$500.99	$476.00	$24.99	43
Plan 3	$511.14	$476.00	$35.14	9
Family Medical/Prescription				
Bronze Plan	$954.10	$1,234.00	($279.90)	0
Plan 1	$1,136.28	$1,234.00	($97.72)	1
Plan 2	$1,276.97	$1,234.00	$42.97	139
Plan 3	$1,303.60	$1,234.00	$69.60	36

Source: MLSD and SERB

As shown in **Table 18**, the cost to the District is more for employees who have single or family under Plan 2 or Plan 3. This is of particular importance as these two plans account for 98.7 percent of all employee plans. The District can continue to provide these various levels of coverage, but should offset the higher employer costs by increasing employee contributions to cover the excess costs. In order to decrease District costs while continuing to offer the same coverage levels for employees, MLSD should increase employee contributions for Plan 2 and Plan 3.

Table 19 shows the amount of contribution level increase needed for each plan to achieve a total employer cost that is consistent with the SERB county average.

Table 19: Revised Medical/Prescription Employee Contribution

	Current Single Contribution	Current Single %	New Single Contribution	New Single %	# of Employees Enrolled	Difference	Annual Savings
Plan 2	$78.55	13.6%	$104.43	18.0%	43	$25.88	$13,356
Plan 3	$136.30	21.1%	$172.33	26.6%	9	$36.03	$3,892
	Current Family Contribution	**Current Family %**	**New Family Contribution**	**New Family %**	**# of Employees Enrolled**	**Difference**	**Annual Savings**
Plan 2	$200.67	13.6%	$250.04	16.9%	139	$49.37	$82,352
Plan 3	$347.14	21.0%	$423.14	25.6%	36	$76.00	$32,833
Total Annual Savings							**$132,433**

Source: AOS and SERB

As shown in **Table 19**, increasing employee contributions for Plan 2 and Plan 3 to the amounts presented would bring employer costs in line with the SERB county average.

<ins>Financial Implication:</ins> Increasing employee contributions for Plan 2 and Plan 3 would save the District **$132,400** annually.

R.9 Implement an energy management program

The District has built or renovated four of its five school buildings since 2013. Renovations have included new HVAC systems and energy system improvements such as timed lighting and centrally controlled classroom thermostats; many of which were intended to increase energy efficiency. **Table 20** shows the District's FY 2014-15 energy expenditures per square foot in comparison to the primary peer average. It is important to analyze costs per square foot as this serves to provide an effective cost comparison as it is normalized for size differences between comparative districts.

Table 20: Energy Expenditures per Square Foot Comparison

Cost Category	MLSD	Primary Peer Average	Difference	% Difference
Total Energy Expenditures	**$1.36**	**$1.22**	**$0.14**	**11.5%**
Electric	$1.06	$0.97	$0.09	9.3%
Gas	$0.29	$0.25	$0.04	16.0%

Source: ODE

As shown in **Table 20**, the District's combined energy cost per square foot was $0.14, or 11.5 percent, higher than the peer average. Due to the District's practices of competitive price-shopping for electric providers and consortium purchasing for natural gas through the Ohio Schools Council, the comparatively high energy expenditures are most likely attributable to usage levels. In turn, the high energy usage is most likely linked to the absence of a formal energy management policy, plan, or procedures manual that would serve as a guide to help control energy costs.

The Energy Star Guidelines for Energy Management (EPA, 2016) outlines the following steps for an effective energy management plan:

- Make a commitment;
- Assess performance and set goals;
- Create an action plan;
- Implement the action plan;
- Evaluate progress; and
- Recognize achievement.

Table 21 shows the potential financial implication of implementing a formal energy management program that reduces the level of energy usage needed to bring expenditures in line with the primary peer average.

Table 21: Energy Usage and Expenditure Reduction

Total Annual Energy Expenditure	$683,152
Total District Square Footage	503,501
Electric	
Peer Average Cost Difference per Square Foot	$0.09
Total Expenditure Cost Difference	**$44,625**
Cost Difference as % of Total Energy Expenditure	**8.3%**
Total Annual Electric Units Used (kWh)[1]	2,858,697
8.3% Electric Usage Reduction (kWh)	**238,399**
Gas	
Peer Average Cost Difference per Square Foot	$0.04
Total Expenditure Cost Difference	**$21,386**
Cost Difference as % of Total Energy Expenditure	**14.4%**
Total Annual Natural Gas Units Used (MCF)[2]	23,745
14.4% Natural Gas Usage Reduction (MCF)	**3,430**

Source: MLSD and ODE
[1] Kilowatt hours.
[2]MCF is an abbreviation for one thousand cubic feet of natural gas.

Financial Implication: Reducing energy expenditures to the primary peer averages could result in savings of approximately **$66,000** assuming proportional reductions in both electric and natural gas usage.

R.10 Enhance internal control measures for T-Form reporting

In accordance with ORC § 3327.012 and OAC 3301-83-01, school districts in Ohio are required to submit annual T-1 and T-2 Forms to ODE. The T-1 Form certifies the actual number and type of pupils transported, daily miles traveled, and buses used in the transportation program. School districts are required to complete the T-1 Form by recording the average number of pupils enrolled and regularly transported to school as well as the average daily miles traveled for pupil transportation (excluding non-routine and extra-curricular miles) during the first full week of October. The T-1 Form is then used for calculation of the pupil transportation payment pursuant to ORC § 3327.012. Cost data is reported via the T-2 Form, which serves to certify the actual expenses incurred in the transportation of eligible pupils reported on the corresponding T-1 Form. ODE provides detailed instructions for completing both the T-1 and T-2 forms. In particular, it provides guidelines detailing how a district should properly code its students, mileage, and buses on the T-1 Form and the manner in which transportation related expenditures should be recorded on the T-2 Form.

In order to assess the accuracy of the District's transportation reporting, the FY 2015-16 October count data was used to determine average daily riders and average daily miles, which were then compared to total values as reported on the FY 2015-16 T-1 Form. **Table 22** shows the degree of variation between MLSD's transportation operating condition and the information as reported in the T-Reports. This comparison is important in determining whether the District's T-Form data collection practices are resulting in accurate submissions to ODE and are in accordance with the established guidelines.

Table 22: T-Form Reporting Variation

T-1 Report				
	T-1 Totals	District Count Data	Difference	Percentage Difference
Average Daily Ridership	1,746	1,918	(172)	(9.0%)
Average Daily Mileage	1,909	2,681	(772)	(28.8%)
T-2 Report				
	T-2 Total Expenditures Reported	Actual Expenditures	Difference	Percentage Difference
FY 2013-14	$3,816,761	$2,234,186	$1,582,575	70.8%
FY 2014-15	$3,769,240	$2,143,270	$1,625,970	75.9%

Source: MLSD and ODE

As shown in **Table 22**, the information reported in both the T-1 and T-2 forms had a significant degree of variation in comparison to the documented count and expenditure data. Substantial variation was identified between the average daily ridership and average daily mileage figures as calculated from the District count sheets and those reported on the FY 2015-16 T-1 Report. In terms of ridership reported on the T-1 Form, the District over-counted 312 riders and undercounted 484 riders, resulting in a net total of 172 underreported average daily riders.[10] With respect to mileage, the District over-counted 912 miles and undercounted 1,684 miles, resulting in a net total of 772 underreported average daily miles. Further, a total of eight buses were absent on the T-1 Report that had ridership and mileage data recorded on the October count sheets. An additional four buses had mileage reported on the T-1 Report, but no corresponding ridership was reported. As is also shown in **Table 22**, the inaccurate T-2 figures suggest that the District's transportation expenditures were substantially misstated in FY 2013-14 and FY 2014-15. According to the District, these potential misstatements were the result of double-counting the District's contracted bus service expenditures.[11]

MLSD's T-1 Form inaccuracies are likely due to its data collection dynamic with Community Bus Services, Inc. (CBS or the Contractor); the District's contracted transportation service provider. While the Treasurer and Superintendent review and submit final data to ODE, the District does not have any additional internal personnel involved with the primary source data collection process for its T-1 Form reporting. Instead, the District receives completed October count forms from the Contractor.

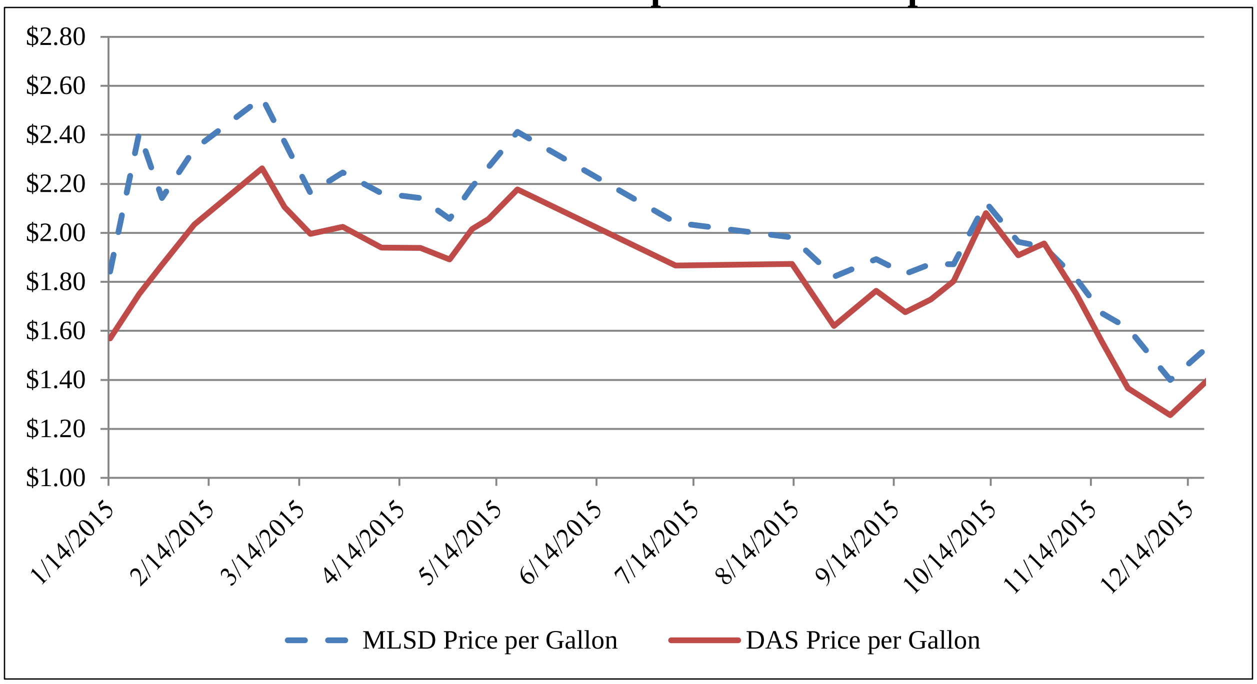
The District should enhance its internal control measures for the collection and recording of transportation data in order to ensure that T-Forms are submitted accurately and in accordance with guidance provided by ODE. Failure to accurately report this information increases the risk of incorrect calculations of State pupil transportation payments to the District. Creating and adhering to policies and procedures governing T-Form data collection will help to ensure the District will receive the appropriate amount of funding and that expenditures will be accurately reported.

[10] Ridership and mileage are recorded for each bus during the October counts. As such, there is potential for either over-counting or undercounting for each individual bus. Therefore, the sum of over counted and undercounted riders and miles for each bus determines the net result of the transportation fleet as a whole.
[11] After reconciliation of the double-counting, T-2 expenditures were deemed to be reasonable.

R.11 Procure fuel using the DAS cooperative purchasing program

The District does not participate in cooperative purchasing for diesel fuel, although it has the opportunity to do so through its membership in the Ohio Schools Council. Instead, the District elects to purchase directly from a vendor who distributes the fuel into the District's onsite storage tank. The DAS Cooperative Purchasing Program (CPP) offers political subdivisions, including school districts, the benefits and cost savings of procuring goods and services through State contracts. **Chart 3** shows a comparison between the District's total cost for diesel fuel and the price offered through the CPP on the same dates during CY 2015. This comparison provides an indication between what the District paid for fuel and what it could have paid through cooperative purchasing.

Chart 3: Diesel Fuel Price per Gallon Comparison



Source: MLSD and DAS

As shown in **Chart 3**, the District consistently paid more for diesel fuel compared to the CPP contract in 2015. In addition, ORC § 125.04(C) states, "A [school district] may purchase supplies or services from another party, including a political subdivision, instead of through participation in contracts if the [school district] can purchase those supplies or services from the other party upon equivalent terms, conditions, and specifications but at a lower price than it can through those contracts."

As shown above, the District did not obtain lower pricing than was offered through the CPP in 2015. Procuring fuel using the DAS CPP would enable the District to obtain lower pricing.

Financial Implication: Purchasing diesel fuel through the CPP could save approximately **$11,400** annually. This savings is based on the difference between the District's diesel fuel expenditures and the CPP contract prices for 2015, reflective of the number of gallons purchased.

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 the Department and the District, OPT identified the following scope areas for detailed review: Open Enrollment, 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. Seven of the 16 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
Open Enrollment	
Are the District's open enrollment policies financially beneficial?	**R.1**
Financial Management	
Are strategic planning and budgeting practices consistent with leading practices?	**R.2**
Is financial communication consistent with leading practices?	**N/A**
Are purchasing practices comparable to leading practices?	**N/A**
Are extracurricular activities revenues and expenditures balanced?	**R.3**
Human Resources	
Are staffing levels comparable to peers and OAC/State minimums, where applicable, and are they appropriate based on the District's financial condition?	**R.4, R.5,** and **R.6**
Are salaries comparable to regional peers and are they appropriate based on the District's financial condition?	**N/A**
Are collective bargaining agreement provisions consistent with leading practices and are they appropriate based on the District's financial condition?	**R.7**
Are insurance benefits consistent with leading practices?	**R.8**
Are supplemental contracts comparable to surrounding peers?	**N/A**
Facilities	
Is energy usage for the operation of District facilities efficient compared to the peers and/or industry benchmarks?	**R.9**
Transportation	
Are T-form procedures consistent with leading practices?	**R.10**
Is the transportation program appropriately sized and cost-effective?	**N/A**
Is the transportation contract being sufficiently monitored?	**N/A**
Is fuel purchased efficiently compared to available options?	**R.11**
Food Service	
Is meal pricing in-line with the peers?	**N/A**

Note: Although assessment of internal controls was not specifically an objective of this performance audit, internal controls were considered and evaluated when applicable to scope areas and objectives.

Appendix B: Additional Comparisons

Open Enrollment

Table B-1 shows the District's cost to educate open enrollment students in comparison to the revenue generated by these students in FY 2014-15. This analysis illustrates the net revenue or loss generated by open enrollment.

Table B-1: Costs and Revenue Attributed to Open Enrollment

Total Students		2,955
Open Enrollment Students		243
Percentage of Open Enrollment Students		8.2%
Expenditure Type	**Total Cost**	**Open Enrollment Cost**
Regular Instruction	$12,940,680	$988,747
Special Instruction [1]	$3,633,135	$152,235
Support Services Pupils	$1,800,382	$41,112
Support Services Instructional Staff	$212,433	$4,509
Support Services Administrative	$2,201,540	$3,775
Operation and Maintenance of Plant Services	$2,143,485	$15,967
Support Services Pupil Transportation	$2,032,687	$111,770
Support Services Central	$353,154	$29,591
Extracurricular Activities [2]	$919,766	$27,414
Total Expenditures	**$26,237,262**	**$1,375,120**
Open Enrollment Revenue		**$1,553,404**
Net Revenue/(Loss)		**$178,284**

Source: MLSD and ODE

[1] Open enrollment special education students account for approximately 3.8 percent of total special education students. This percentage was applied to the Special Instruction expenditures, except for Disadvantaged Youth, which was multiplied by the percentage of open enrollment students.

[2] Open enrollment cost is based on the District's net cost of $355,418 for extracurricular activities multiplied by the percentage of open enrollment students.

As shown in **Table B-1**, MLSD's net gain for educating open enrollment students was approximately $178,200 in FY 2014-15.

Staffing

Table B-2 shows full-time equivalent (FTE) staffing levels per 1,000 students at the District compared to the primary peer district average. Peer data was from FY 2015-16 as reported to ODE through the Education Management Information System (EMIS). Adjustments were made to the District's EMIS data to reflect accurate staffing levels for FY 2015-16.

Table B-2: MLSD Staffing Comparison

	MLSD	Primary Peer Average	Difference
Students Educated [1]	2,982	2,806	176
Students Educated (thousands)	2.982	2.806	0.176

	MLSD		Peer Average Staff/1,000 Students	Difference	
	FTE Staff	FTE/1,000 Students		Difference Per 1,000 Students	Total FTEs Above/ (Below) [2]
Administrative	16.00	5.37	5.72	(0.35)	(1.05)
Office/Clerical	18.57	6.23	8.75	(2.52)	(7.52)
General Education Teachers	115.25	38.65	41.27	(2.62)	(7.80)
Education Service Personnel (ESP)	10.00	3.35	4.69	(1.33)	(3.97)
All Other Teachers	20.81	6.98	10.33	(3.35)	(10.00)
Other Educational	11.00	3.69	4.70	(1.01)	(3.00)
Professional	12.98	4.35	6.10	(1.74)	(5.20)
Non-Certificated Support	32.93	11.04	10.68	0.36	1.09
Technical Staff	1.00	0.34	0.36	(0.02)	(0.06)

Source: MLSD, ODE, and primary peers

Note: The District's operational staffing, including custodians, maintenance workers, bus drivers, and food service employees are not included in the peer comparison. These areas were assessed based on industry and operational standards.

[1] Reflects students receiving educational services from the District and excludes the percent of time students are receiving educational services outside of the District.

[2] 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.

As shown in **Table B-2**, District staffing levels were below the peer average in all categories, with the exception of non-certificated support staff. While staffing levels were generally lower than the peers, recommendations for administrators, clerical, and ESP teachers were warranted based on the District's financial condition, and are discussed in greater detail in **R.4**, **R.5**, and **R.6**, respectively. Other educational, professional and non-certificated support staff includes various positions whose staffing levels are dictated by individualized education programs (IEPs) or OAC 3301-51-09. As such, these categories were not assessed.

Salaries

As part of the initial scope and objectives, a review of salary and wage schedules for certificated and classified employees were compared to the local peers in an attempt to determine opportunities for adjustment. **Table B-3** shows the District's FY 2015-16 certificated salary schedules compared to the local peers over the course of 30 years. Comparing career compensation to other area districts provides a gauge as to the appropriateness of salary levels on a regional basis.

Table B-3: Certificated Career Compensation Comparison

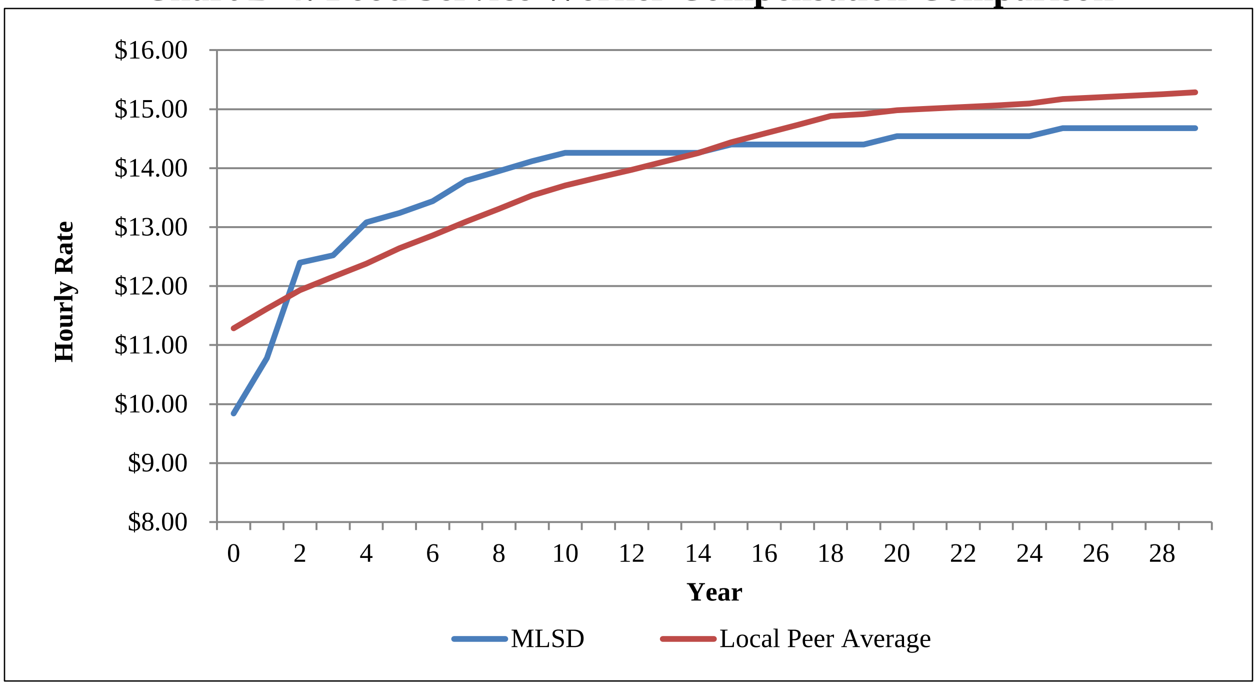
	MLSD	Local Peer Average	Difference	% Difference
Bachelor's Degree	$1,688,781	$1,674,851	$13,930	0.8%
Master's Degree	$1,938,130	$1,940,561	($2,431)	(0.1%)

Source: MLSD and SERB

As shown in **Table B-3**, the District's career compensation for certificated staff was in line with the local peer average. While the District's career compensation for employees with a bachelor's degree is slightly higher than the local peer average, employees with a master's degree make slightly less than the local peer average. Overall, both are within 1.0 percent of the local peers.

A comparison of the District's classified salaries showed that hourly wages for food service workers and monitors were lower than the local peer averages for FY 2015-16. **Chart B-4** shows the hourly wages for the Districts food service worker position compared to the local peers over the course of 30 years.

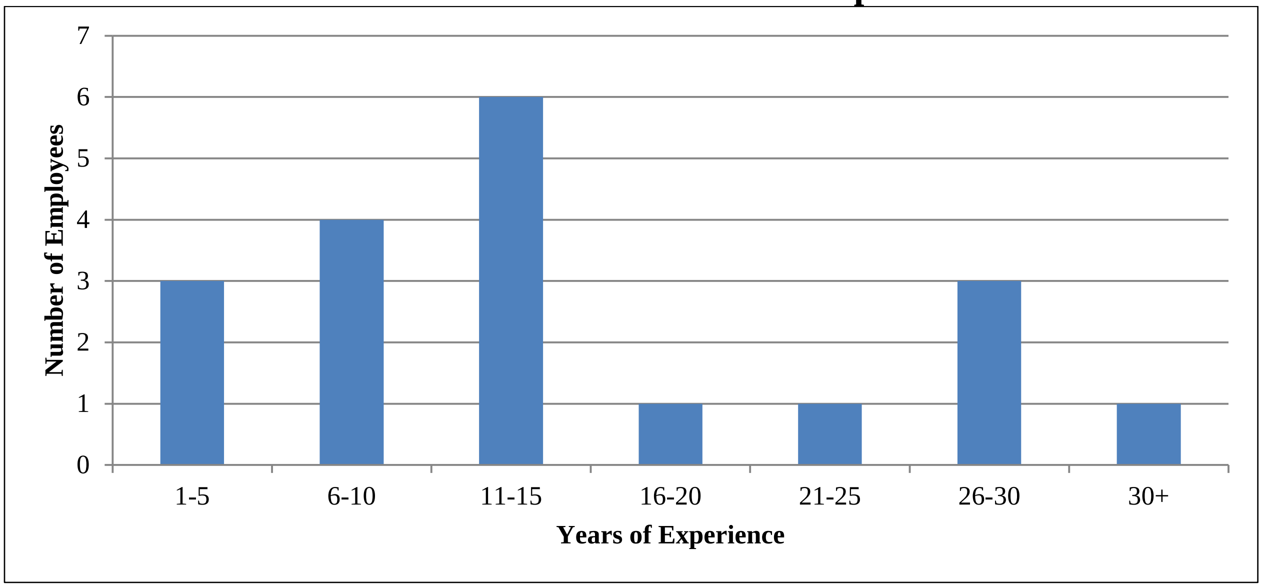
Chart B-4: Food Service Worker Compensation Comparison



Source: MLSD and SERB

As shown in **Chart B-4,** a food service worker who is new to the District would have a lower starting and ending wage than the local peers, but a higher wage during their second through fourteenth year. **Chart B-5** shows the years of experience of MLSD's food service workers. This helps to show where on the salary schedule employees actually fall and how they are currently compensated relative to the peers.

Chart B-5: Food Service Years of Experience

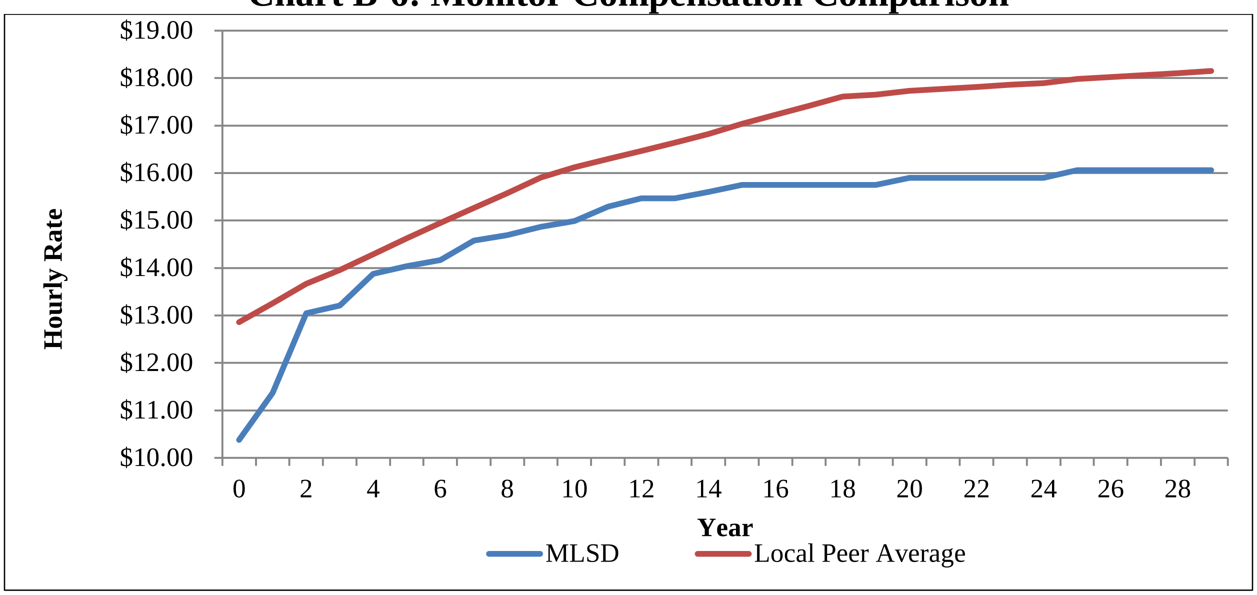


Source: MLSD

As shown in **Chart B-5**, MLSD food service workers have an average of 14.4 years of experience. Considering the pay scale in **Chart B-4**, the majority of MLSD's food service workers are past the point, or close to the point, where they will be making less than or equal to the peer average.

Chart B-6 shows the hourly wages for the District's monitor position compared to the local peers over the course of 30 years.

Chart B-6: Monitor Compensation Comparison

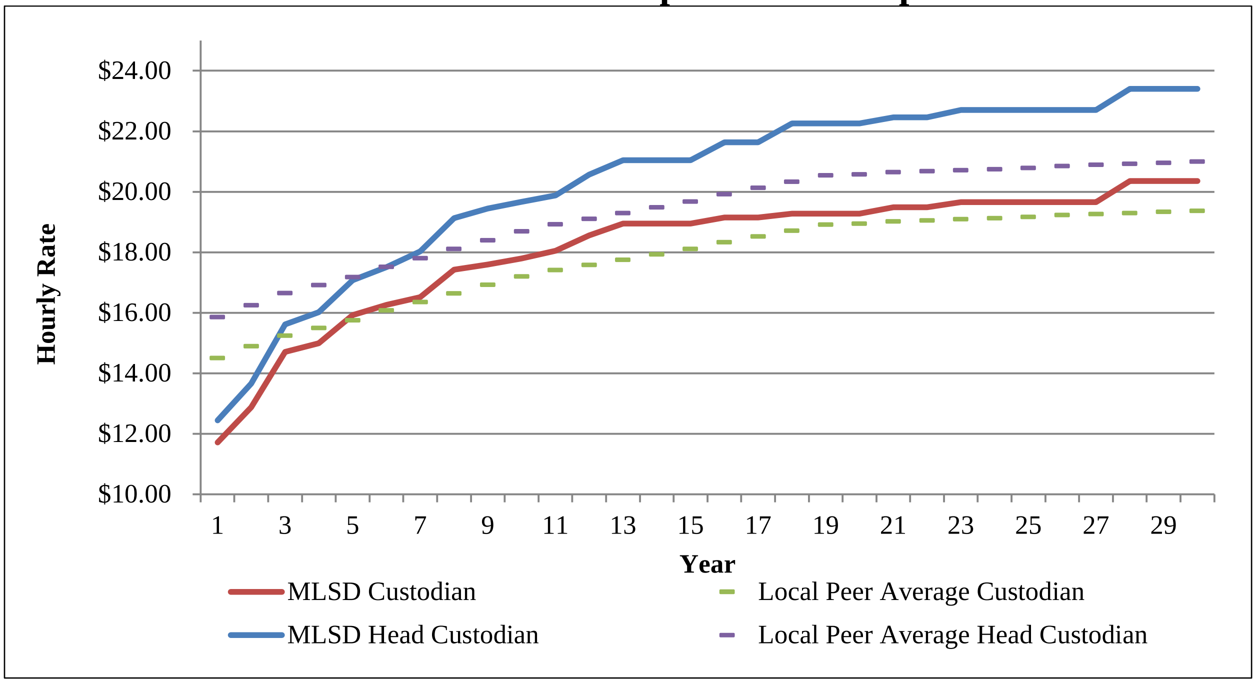


Source: MLSD and SERB

As shown in **Chart B-6**, hourly wages for the District's monitor position are below the local peer average. A monitor who is new to the District would begin at a lower wage, and remain at a lower wage throughout a 30-year career.

Chart B-7 shows the District's custodial hourly wages compared to the local peers over the course of 30 years.

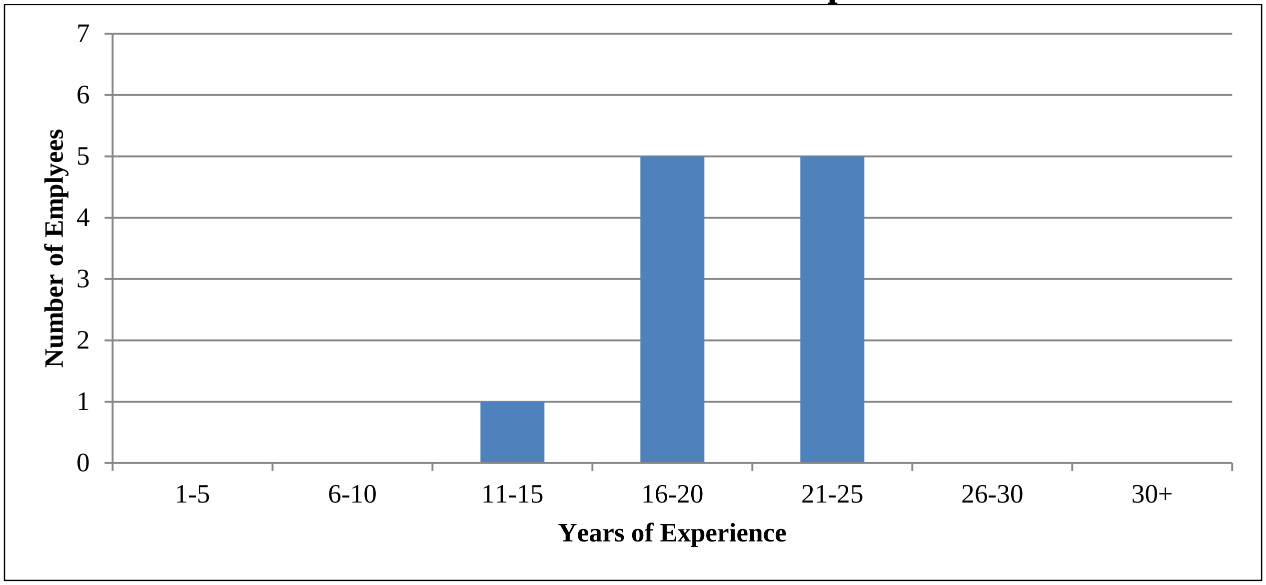
Chart B-7: Custodial Compensation Comparison



Source: MLSD and SERB

As shown in **Chart B-7**, a head custodian hired at MLSD would have a lower hourly wage for the first six years, and a higher hourly wage from year seven through 30. In total, a head custodian employed at MLSD can earn $65,200 more over a 30-year career than if compensated at the peer average, and a custodian employed at MLSD can earn $21,900 more over a 30-year career than if compensated at the peer average. A custodian hired at MLSD would have a lower wage for the first four years, and a higher hourly wage from year five through 30. While the base hourly rates for head custodians and custodians were lower than the local peer averages, over the duration of a 30-year career, MLSD employees advance 17 steps compared to the local peer average of 11. In addition, **Chart B-8** shows the distribution of years of experience amongst MLSD custodians. This is important as it provides indication of where employees actually fall on the wage scale.

Chart B-8: Custodial Years of Experience

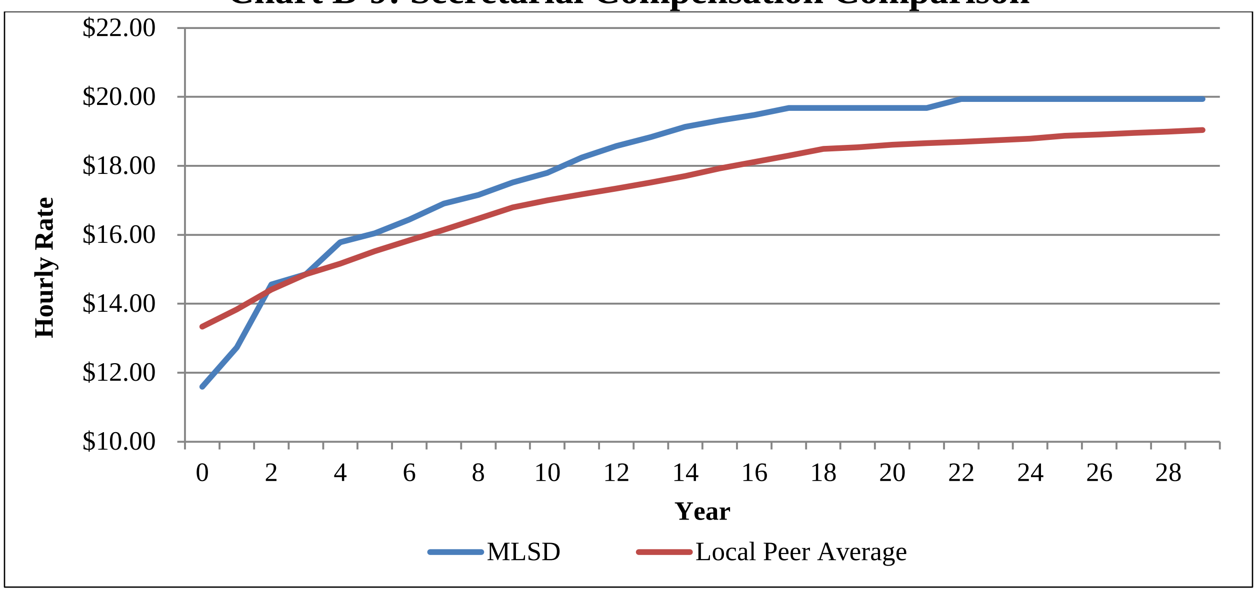


Source: MLSD

As shown in **Chart B-8**, MLSD custodians have an average of 19.5 years of experience. This would place all employees on the salary scale above the peer average.

Chart B-9 shows secretarial hourly wages for FY 2015-16 compared to the local peers over the course of 30 years.

Chart B-9: Secretarial Compensation Comparison

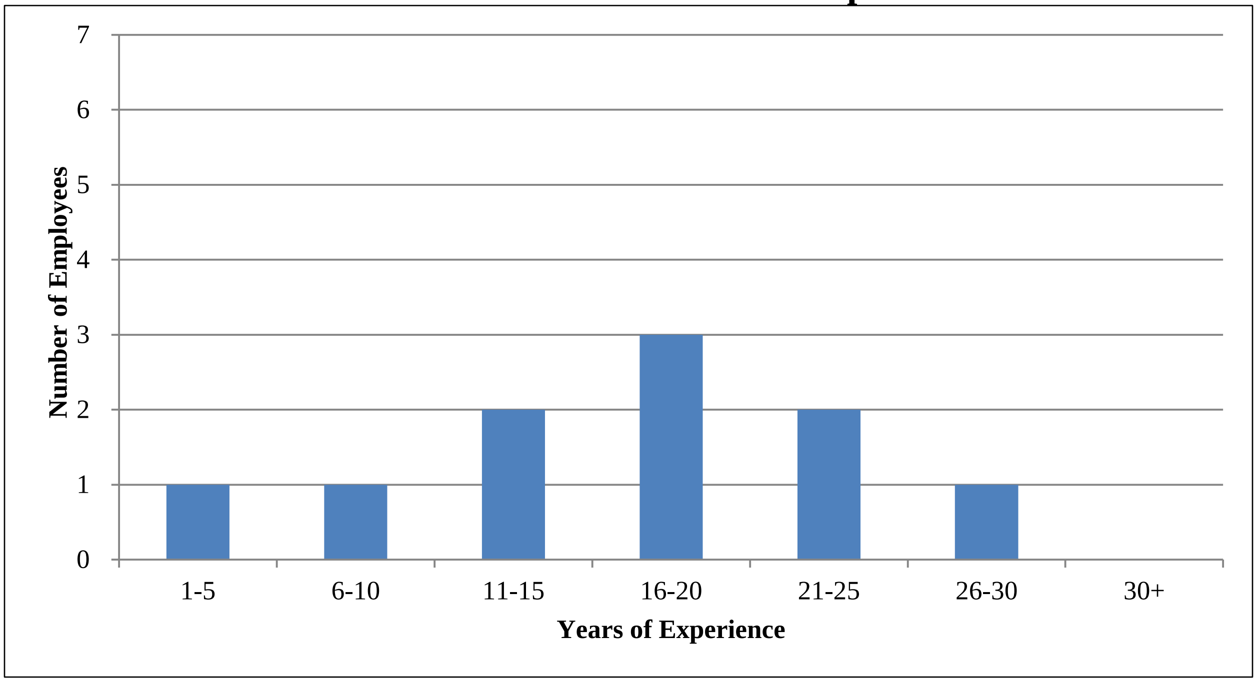


Source: MLSD and SERB

As shown in **Chart B-9**, MLSD secretaries have a lower hourly wage for the first two years, followed by 28 years with a higher hourly wage. In total, a secretary employed at MLSD will make $50,200 more over a 30-year career than if compensated at the peer average. While

MLSD's base hourly rate for secretaries is lower than the local peer average, over the duration of a 30-year career, MLSD employees advance 18 steps in comparison to the local peer average of 11. **Chart B-10** shows the distribution of years of experience amongst MLSD secretaries. This is important as it provides indication of where actual employees fall on the wage scale.

Chart B-10: Secretarial Years of Experience



Source: MLSD

As shown in **Chart B-10**, MLSD secretaries have an average of 17.5 years of experience. This would place all employees on the salary scale above the peer average.

Custodial and secretarial wages are above the local peer averages. Bringing these salaries in line with the respective local peer averages would require a wage freeze for all current classified staff. Implementing a freeze for all classified staff would put custodial and secretarial wages in line; however, it would increase the gap between other positions and the peer average, forcing wages for employees, such as food service and monitors, even further below the peer average.

Table B-4 shows the annual financial liability of bringing CBA provisions for sick leave payout in line with ORC minimums for FY 2016-17 through FY 2025-26 (see **R.7**).

Table B-4: Difference between ORC and MLSD for Severance Liability

Severance Liability					
Certificated Staff					
Date	**Years of Service**	**Qualified Employees**	**Current**	**ORC Minimum**	**Difference**
7/1/2017	31	1	$28,986	$12,788	$16,198
7/1/2018	32	0	$0	$0	$0
7/1/2019	32	2	$54,144	$23,887	$30,257
7/1/2020	33	0	$0	$0	$0
7/1/2021	33	2	$33,572	$23,887	$9,685
7/1/2022	34	0	$0	$0	$0
7/1/2023	34	0	$0	$0	$0
7/1/2024	35	0	$0	$0	$0
7/1/2025	35	2	$53,435	$23,574	$29,861
7/1/2026	35	1	$28,278	$12,476	$15,802
Classified Staff					
Date	**Years of Service**	**Qualified Employees**	**Current**	**ORC Minimum**	**Difference**
7/1/2017	30+	3	$32,869	$14,501	$18,368
7/1/2018	30	2	$7,400	$5,223	$2,177
7/1/2019	30	1	$8,330	$3,675	$4,655
7/1/2020	30	0	$0	$0	$0
7/1/2021	30	2	$25,006	$16,033	$8,973
7/1/2022	30	1	$4,041	$2,734	$1,308
7/1/2023	30	3	$33,681	$16,294	$17,388
7/1/2024	30	4	$20,043	$9,936	$10,107
7/1/2025	30	2	$10,753	$4,828	$5,925
7/1/2026	30	5	$36,688	$9,918	$26,770

Source: MLSD and ORC
[1] Years of service required to receive full retirement benefits.
[2] Projected counts of employees that will be eligible for retirement each year based on FY 2015-16 years of service.
[3] Represents cost of severance at ORC minimum requirement.

As shown in **Table B-4**, MLSD allows employees to receive severance payout for more days at retirement than the ORC minimum. Adjusting payouts to the ORC minimum would decrease the District's future severance liability.

Transportation

Table B-5 shows two comparisons between MLSD's annual transportation, operating cost efficiency, and the peers using operations data from the FY 2015-16 T-1 Report, as submitted to ODE, and the FY 2015-16 October Count Sheet data as collected by the District. This analysis is important as it illustrates the degree to which transportation data collection and reporting accuracy can affect key performance indicators, information that is critical to making effective long-term financial decisions.

Table B-5: Annual Routine Transportation Operating Cost Comparison

Operating Cost Comparison Using the FY 2015-16 T-1 Report Data				
	MLSD	**Transportation Peer Average**	**Difference**	**% Difference**
Total Annual Cost	$1,999,463	$893,044	$1,106,419	124.0%
Total Annual Routine Miles [1]	365,580	204,660	160,920	78.6%
Cost per Routine Mile	**$5.47**	**$4.36**	**$1.11**	**25.5%**
Annual Cost Difference				**$405,794**
Operating Cost Comparison Using the FY 2015-16 October Count Sheet Data				
	MLSD	**Transportation Peer Average**	**Difference**	**% Difference**
Total Annual Cost	$1,999,463	$893,044	$1,106,419	124.0%
Total Annual Routine Miles [1]	482,580	204,660	277,920	136.0%
Cost per Routine Mile	**$4.14**	**$4.36**	**($0.22)**	**(5.0%)**
Annual Cost Difference				**($106,168)**

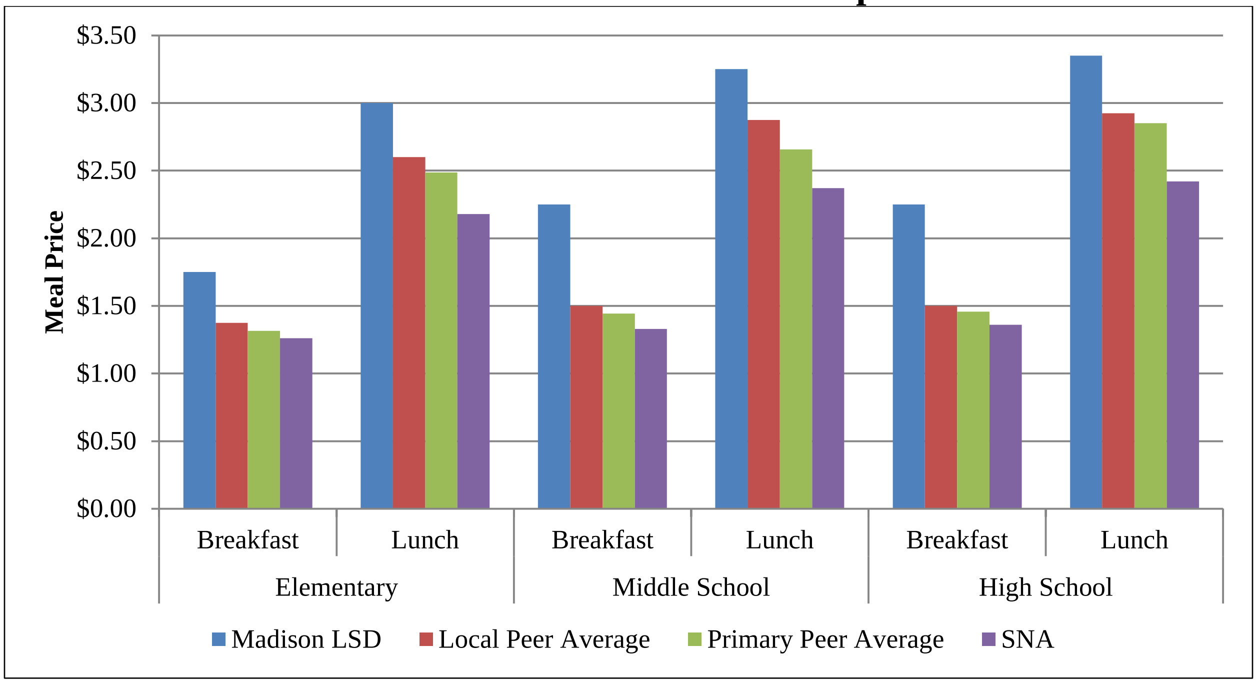
Source: MLSD and ODE
[1] Routine mileage does not include mileage traveled for field trips and/or extra-curricular activities.

As shown in **Table B-5**, the District's transportation operating costs vary in relation to the peers based on the type of data source used for analysis. Specifically, applying the cost and routine mileage data as reported in the FY 2015-16 T-1 Report would indicate that MLSD's transportation program operates inefficiently in comparison to the peers. Conversely, applying the data contained in the FY 2015-16 October count sheets would indicate that MLSD's transportation program operates efficiently in comparison to the peers. Due to these identified data inconsistencies, in conjunction with those identified in **R.10**, AOS could not assess the relative efficiency of the District's transportation operation.

Food Service

Chart B-11 shows a comparison of MLSD's breakfast and lunch prices for FY 2015-16 compared to the local peer average, the primary peer average, and the School Nutrition Association (SNA). A comparison of lunch prices provides an indication of the appropriateness of the District's price point in relation to the peers and national benchmarks.

Chart B-11: School Meal Price Comparison



Source: MLSD, primary peers, and SNA

As shown in **Chart B-11**, MLSD's breakfast and lunch prices are higher than the local peer average, the primary peer average, and the SNA. The District should continue to be cognizant of the relationship between its meal pricing points, participation, and the balance of its Food Service Fund.

Appendix C: Five-Year Forecasts

Chart C-1 shows the District's October 2015 Five-Year Forecast and **Chart C-2** shows the District's May 2016 Five-Year Forecast.

Chart C-1: MLSD October 2015 Five-Year Forecast

	Actual			Forecasted				
Line	2013	2014	2015	2016	2017	2018	2019	2020
1.010 General Property (Real Estate)	8,157,690	8,701,685	7,722,802	8,200,178	8,241,179	8,282,385	8,323,797	8,365,416
1.020 Tangible Personal Property Tax	28,274	7						
1.035 Unrestricted Grants-in-Aid	13,123,435	13,204,372	13,420,885	13,350,000	13,350,000	13,350,000	13,350,000	13,350,000
1.040 Restricted Grants-in-Aid	81,111	44,234	40,254	39,000	39,000	39,000	39,000	39,000
1.050 Property Tax Allocation	1,154,262	1,197,518	1,195,747	1,191,692	1,187,963	1,190,932	1,193,910	1,196,895
1.060 All Other Operating Revenue	1,626,200	2,098,381	3,255,297	2,312,500	2,325,260	2,325,260	2,325,260	2,325,260
1.070 Total Revenue	24,170,972	25,246,197	25,634,985	25,093,370	25,143,402	25,187,577	25,231,967	25,276,571
2.050 Advances-In	133,181	8,703	144,926	91,966	150,000	150,000	150,000	150,000
2.070 Total Other Financing Sources	133,181	8,703	144,926	91,966	150,000	150,000	150,000	150,000
2.080 Total Revenues and Other Financing Sources	24,304,153	25,254,900	25,779,911	25,185,336	25,293,402	25,337,577	25,381,967	25,426,571
3.010 Personnel Services	14,686,637	14,514,078	14,273,327	14,046,938	14,105,321	14,347,262	14,571,157	14,797,802
3.020 Employees' Retirement/Insurance Benefits	5,376,531	5,166,280	4,996,769	5,293,197	5,802,005	6,187,745	6,608,139	7,066,562
3.030 Purchased Services	3,140,070	3,889,720	4,163,744	4,348,672	4,498,832	4,654,482	4,815,836	4,983,116
3.040 Supplies and Materials	700,987	735,918	667,278	766,000	766,000	766,000	766,000	766,000
3.050 Capital Outlay	543	1,818	22,070	16,000	16,000	16,000	16,000	16,000
4.050 Debt Service: Principal - HB 264 Loans	65,000	70,000	75,000	100,000	100,000	100,000	100,000	100,000
4.060 Debt Service: Interest and Fiscal Charges	9,456	6,188	2,109					
4.300 Other Objects	181,524	139,368	132,716	158,000	158,000	158,000	158,000	158,000
4.500 Total Expenditures	24,160,748	24,523,370	24,333,013	24,728,807	25,446,158	26,229,489	27,035,132	27,887,480
5.010 Operational Transfers - Out	103,080	138,413	351,893	150,000	150,000	150,000	150,000	150,000
5.020 Advances - Out	19,414	157,926	107,475	300,000	300,000	300,000	300,000	300,000
5.040 Total Other Financing Uses	122,494	296,339	459,368	450,000	450,000	450,000	450,000	450,000
5.050 Total Expenditure and Other Financing Uses	24,283,242	24,819,709	24,792,381	25,178,807	25,896,158	26,679,489	27,485,132	28,337,480
6.010 Excess Rev & Oth Financing Sources over(under) Exp & Oth Financing	20,911	435,191	987,530	6,529	-602,756	-1,341,912	-2,103,165	-2,910,909
7.010 Beginning Cash Balance	425,414	446,325	881,516	1,869,046	1,875,575	1,272,819	-69,093	-2,172,258
7.020 Ending Cash Balance	446,325	881,516	1,869,046	1,875,575	1,272,819	-69,093	-2,172,258	-5,083,167
8.010 Outstanding Encumbrances	377,443	747,046	1,063,591	1,063,591	1,063,591	1,063,591	1,063,591	1,063,591
10.010 Fund Balance June 30 for Certification of Appropriations	68,882	134,470	805,455	811,984	209,228	-1,132,684	-3,235,849	-6,146,758
12.010 Fund Bal June 30 for Cert of Contracts,Salary Sched,Oth Obligations	68,882	134,470	805,455	811,984	209,228	-1,132,684	-3,235,849	-6,146,758
15.010 Unreserved Fund Balance June 30	68,882	134,470	805,455	811,984	209,228	-1,132,684	-3,235,849	-6,146,758

Source: ODE

Chart C-2: MLSD May 2016 Five-Year Forecast

	Actual			Forecasted				
Line	2013	2014	2015	2016	2017	2018	2019	2020
1.010 General Property (Real Estate)	8,157,690	8,701,685	7,722,802	8,200,178	8,241,179	8,282,385	8,323,797	8,365,416
1.020 Tangible Personal Property Tax	28,274	7						
1.035 Unrestricted Grants-in-Aid	13,123,435	13,204,372	13,420,885	13,350,000	13,350,000	13,350,000	13,350,000	13,350,000
1.040 Restricted Grants-in-Aid	81,111	44,234	40,254	39,000	39,000	39,000	39,000	39,000
1.050 Property Tax Allocation	1,154,262	1,197,518	1,195,747	1,191,692	1,187,963	1,190,932	1,193,910	1,196,895
1.060 All Other Operating Revenue	1,626,200	2,098,381	3,255,297	2,362,500	2,362,500	2,362,500	2,362,500	2,362,500
1.070 Total Revenue	24,170,972	25,246,197	25,634,985	25,143,370	25,180,642	25,224,817	25,269,207	25,313,811
2.050 Advances-In	133,181	8,703	144,926	91,966	150,000	150,000	150,000	150,000
2.070 Total Other Financing Sources	133,181	8,703	144,926	91,966	150,000	150,000	150,000	150,000
2.080 Total Revenues and Other Financing Sources	24,304,153	25,254,900	25,779,911	25,235,336	25,330,642	25,374,817	25,419,207	25,463,811
3.010 Personnel Services	14,686,637	14,514,078	14,273,327	14,046,938	14,105,321	14,347,262	14,571,157	14,797,802
3.020 Employees' Retirement/Insurance Benefits	5,376,531	5,166,280	4,996,769	5,293,197	5,647,002	6,017,243	6,420,586	6,860,254
3.030 Purchased Services	3,140,070	3,889,720	4,163,744	4,248,672	4,395,832	4,548,392	4,706,563	4,870,565
3.040 Supplies and Materials	700,987	735,918	667,278	766,000	766,000	766,000	766,000	766,000
3.050 Capital Outlay	543	1,818	22,070	16,000	16,000	16,000	16,000	16,000
4.050 Debt Service: Principal - HB 264 Loans	65,000	70,000	75,000	100,000	100,000	100,000	100,000	100,000
4.060 Debt Service: Interest and Fiscal Charges	9,456	6,188	2,109					
4.300 Other Objects	181,524	139,368	132,716	158,000	158,000	158,000	158,000	158,000
4.500 Total Expenditures	24,160,748	24,523,370	24,333,013	24,628,807	25,188,155	25,952,897	26,738,306	27,568,621
5.010 Operational Transfers - Out	103,080	138,413	351,893	300,000	300,000	300,000	300,000	300,000
5.020 Advances - Out	19,414	157,926	107,475	150,000	150,000	150,000	150,000	150,000
5.040 Total Other Financing Uses	122,494	296,339	459,368	450,000	450,000	450,000	450,000	450,000
5.050 Total Expenditure and Other Financing Uses	24,283,242	24,819,709	24,792,381	25,078,807	25,638,155	26,402,897	27,188,306	28,018,621
6.010 Excess Rev & Oth Financing Sources over(under) Exp & Oth Financing	20,911	435,191	987,530	156,529	-307,513	-1,028,080	-1,769,099	-2,554,810
7.010 Beginning Cash Balance	425,414	446,325	881,516	1,869,046	2,025,575	1,718,062	689,982	-1,079,117
7.020 Ending Cash Balance	446,325	881,516	1,869,046	2,025,575	1,718,062	689,982	-1,079,117	-3,633,927
8.010 Outstanding Encumbrances	377,443	747,046	1,063,591	1,063,591	1,063,591	1,063,591	1,063,591	1,063,591
10.010 Fund Balance June 30 for Certification of Appropriations	68,882	134,470	805,455	961,984	654,471	-373,609	-2,142,708	-4,697,518
12.010 Fund Bal June 30 for Cert of Contracts,Salary Sched,Oth Obligations	68,882	134,470	805,455	961,984	654,471	-373,609	-2,142,708	-4,697,518
15.010 Unreserved Fund Balance June 30	68,882	134,470	805,455	961,984	654,471	-373,609	-2,142,708	-4,697,518

Source: ODE

Client 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, revisions were made to the audit report.

Madison Local School District

1956 Red Bird Road - Madison, Ohio 44057 - Telephone 440.428.2166 - Fax 440.428.9379
Mrs. Angela M. Smith, Superintendent www.madisonschools.net

October 3, 2016

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

Dear Auditor Yost:

On behalf of the Madison Board of Education and our administrative team, we would like to thank your office and your Performance Audit Team led by Cody Koch for their effort in reviewing our district's fiscal operations and providing suggestions as to how we can streamline costs.

We appreciate that you acknowledge in the report the many efficiencies we have already implemented. In the last six years, we have reduced staff, participated in consortium services to reduce costs, and examined expenditures in terms of student impact. From the start of this process in February 2016 our five year forecast has shifted to where the deficit projected in FY2018 no longer exists. This is due to closely monitoring our expenses and revenue.

Going forward, we will continue to review the recommendations outlined in your report as we make financial decisions for the district. However, as in any district, the more reductions that are made, the greater the impact is on the classroom. Our district has reduced program elements and adjusted fee structures to the point of limiting opportunities for our students. We have reduced the number of electives for our secondary students and have larger class sizes for elementary students.

As we implement our Strategic Plan, we are looking for ways to involve our community and build support for our schools. Our Board is beginning to discuss ways to increase revenue, so that we may continue to provide an excellent education for our students in the Madison Local Schools.

Thank you again for the opportunity to participate in the Performance Audit. Our district will continue to analyze the information gained through the audit process for the continued financial improvement of our district as well being fiscally responsible to our community.

Sincerely,

Angela M Smith

Angela M. Smith
Superintendent

Michael Vaccariello

Michael Vaccariello
Treasurer

MADISON LOCAL SCHOOL DISTRICT

LAKE 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
OCTOBER 13, 2016

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