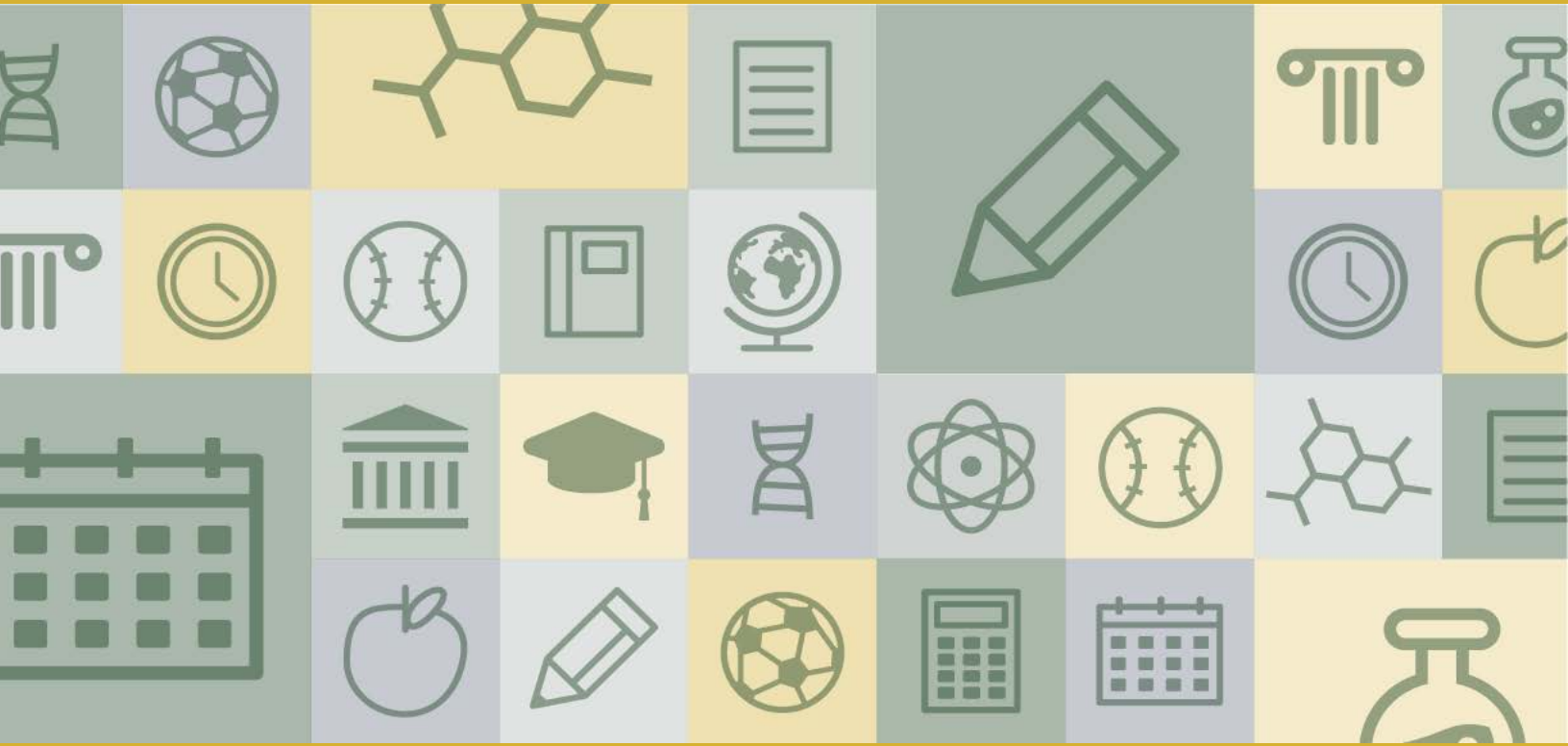


OHIO AUDITOR OF STATE  
KEITH FABER



Fairport Harbor  
Exempted Village  
School District

# Performance Audit

May 11, 2021

OHIO AUDITOR OF STATE  
**KEITH FABER**



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OHIO AUDITOR OF STATE  
KEITH FABER



**To the Fairport Harbor Exempted Village School District community,**

The Auditor of State's Office recently completed a performance audit for the Fairport Harbor Exempted Village School District (the District). The District was selected for a performance audit based on its projected financial condition. This review was conducted by the Ohio Performance Team and provides an independent assessment of operations within select functional areas. The performance audit has been provided at no cost to the District through state funds set aside to provide analyses for districts that meet certain criteria, including conditions that would lead to fiscal distress.

This performance audit report contains recommendations, supported by detailed analysis, to enhance the District's overall economy, efficiency, and/or 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 recommendations contained in the report and to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report.

This data-driven analysis of operations provides the District valuable information which can be used to make important financial decisions. Additional resources related to performance audits are available on the Ohio Auditor of State's website.

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

Sincerely,

A handwritten signature in cursive script that reads 'Keith Faber'.

Keith Faber  
Auditor of State  
Columbus, Ohio

May 11, 2021

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# Table of Contents

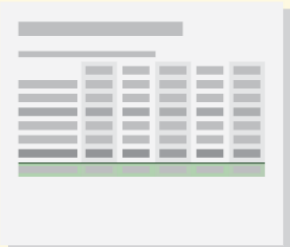
Introduction.....	2
Fairport Harbor Exempted Village School District .....	3
Financial Condition.....	4
Revenues .....	5
Revenue Comparisons .....	8
Special Consideration: Open Enrollment.....	10
Results of the Audit .....	18
Financial Systems .....	19
Recommendation 1: Strategic and Capital Planning .....	19
Recommendation 2: Extracurricular Activities .....	22
Human Resources .....	24
Recommendation 3: Evaluate Psychology Services Options .....	24
Recommendation 4: Eliminate Lunch Monitor Positions.....	26
Issue For Further Study: Building Administrators and Building Office Support Staff .....	27
Recommendation 5: Insurance.....	28
Client Response Letter.....	34
Appendix A: Purpose, Methodology, Scope, and Objectives of the Audit .....	36
Performance Audit Purpose and Overview.....	36
Audit Scope and Objectives.....	36
Audit Methodology.....	38
Appendix B: Financial Systems.....	40
Appendix C: Human Resources.....	41

# Introduction

The public expects and deserves government entities to be good stewards of taxpayer dollars. As Ohio’s school districts face progressively higher costs of doing business and uncertainty related to state and local revenue, it is increasingly important to ensure efficiency of operations. School districts in Ohio are required to submit budget forecasts to the Ohio Department of Education (ODE) annually in the fall, with updates to the forecast submitted in the spring. These documents provide three years of historical financial data as well as the projected revenues and expenditures for a five year period.

## Ohio Department of Education Five-Year Forecasts

Ohio school districts provide a five-year financial forecast to ODE twice a year. These forecasts provide an overview of a district’s financial health. To ensure all interested parties are able to understand the forecasts, ODE has developed a guide with information including definitions of key terms, general ideas of what a good forecast should contain, and a line by line explanation of the forecast.



[Click here for the full document.](#)

The Ohio Auditor of State’s Ohio Performance Team (OPT) reviews the submitted forecasts in order to identify districts which may benefit from a performance audit. These audits are designed to assist school districts which are struggling financially by using data-driven analyses to produce and support recommendations that identify opportunities for improved operational effectiveness, increased transparency, and reductions in costs. While we have the authority to initiate a performance audit for school districts facing financial distress, any school district can request, and benefit from, an audit.<sup>1</sup>



## NOTE TO REPORT USERS:

Our report is largely based on information available prior to the State of Ohio state of emergency declaration in March 2020 due to the COVID-19 pandemic. Where applicable, our analysis only takes into account changes in operations or potential reductions in future revenues and expenditures related to the pandemic and state of emergency as projected in the District’s five-year forecast. These events could have lasting and unforeseen impacts on the District and its operations, and report users and District administrators should take this into account as they consider implementation of the recommendations contained in this report.

<sup>1</sup> Performance audits are conducted using Generally Accepted Government Auditing Standards, guidelines, see [Appendix A](#) for more details.

# Fairport Harbor Exempted Village School District

Fairport Harbor Exempted Village School District (FHEVSD or the District) is located in Lake County. The District spans two square miles and has a median income of \$31,331.

In FY 2020, FHEVSD educated approximately 632 students in its two school buildings. Of this total, about 276 students, or nearly 44 percent, open enrolled from other districts. Of the 612 districts in Ohio, 513 had open enrollment students entering.



The average open enrollment entering as a percent of total enrolled ADM was 12.0 percent.<sup>2</sup>

The majority, or 87.8 percent of FHEVSD’s open enrollment students came from two neighboring school districts: Painesville

Local School District (approximately 150 students) and Riverside Local School District (approximately 93 students). The proximity of the two districts to FHEVSD contributes to the number of open enrollment students. District officials and parent testimonies commonly note the attraction to the small community as an attributing factor.

Open enrollment students as a percent of FHEVSD’s total student population ranged from 43.7 percent to 49.3 percent over the last five years. Total enrollment declined 6.4 percent from FY 2019 to FY 2020, and open enrollment declined by 15.6 percent, or 51 students. While student FTE enrollment is not finalized until the fiscal year ends, for FY 2021, at the beginning of the year, enrollment continued to trend downwards and declined by 8.8 percent.

District officials indicated that there were open enrollment students lost due to recent changes to FHEVSD’s building schedule and the opening of new school buildings by a neighboring district

**Primary Peers**

Districts with relatively lower per pupil spending, similar academic performance, and similar disadvantaged student populations

**Local Peers**

Districts which share a local labor market

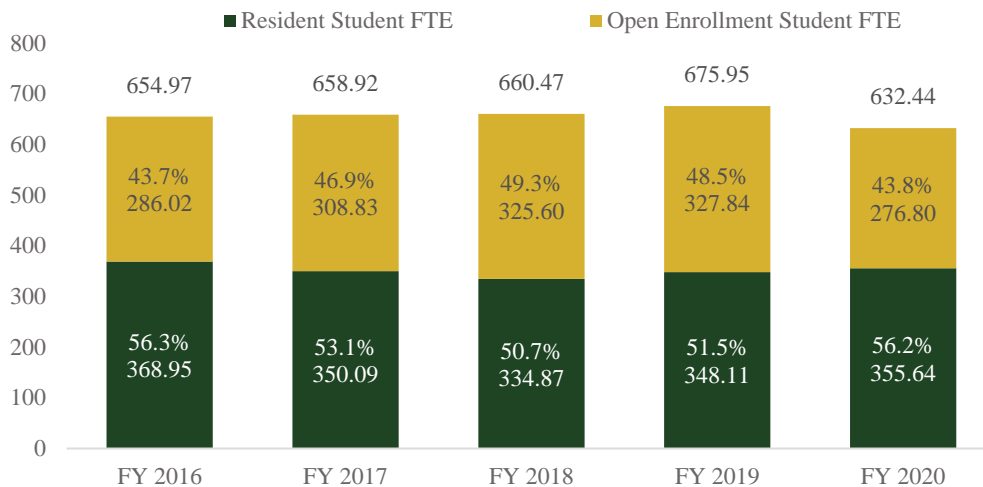
[Click here for a list of all peers used in our analysis.](#)

The diagram is contained within a yellow box with a diagonal hatched border. It features two sections: 'Primary Peers' and 'Local Peers'. 'Primary Peers' includes an icon of three people in a circle with arrows, and a text description. 'Local Peers' includes an icon of a person with a dashed line connecting to a waveform, and a text description. At the bottom is a dark blue button with white text.

<sup>2</sup> The enrolled ADM for each district is comprised of Total ADM including Entering Open Enrollment ADM, excluding Community School and STEM School ADM, excluding Exiting Open Enrollment ADM, excluding EdChoice Scholarship ADM, excluding the first year Cleveland Scholarship ADM, excluding Autism Scholarship ADM, excluding Jon Peterson Scholarship ADM, excluding JVS ADM, and excluding Contract Vocational ADM.

over the last couple years. The following chart displays enrollment from FY 2016 through FY 2020.

### FY 2016-2020 Student Enrollment FTEs



Source: ODE

A school district budget is comprised of revenues and expenditures. Our audit focused on identifying opportunities where expenditures could be reduced, as the administration of the District has primary responsibility over decisions related to expenditures, with the aim of prolonging fiscal solvency. Open enrollment was examined as a special consideration, due to the large student base of open enrollment students. The recommendations, which we presented to FHEVSD, are based on a combination of industry standards and peer district analysis.

## Financial Condition

Ohio school districts receive funding through a variety of sources including local property taxes, local income taxes, state funding, and federal grants, with the majority of funding typically coming from local property taxes and state funding. A school district within the State of Ohio receives funding from the State based on a variety of formulas and laws. The formula which determines the amount granted to a district takes into account student enrollment and the relative wealth of the district compared to statewide income and property valuations.

In November 2019, the District released its semi-annual five-year forecast which showed negative year-end fund balances throughout the forecast period beginning in FY 2021. In an attempt to address the FY 2021 projected deficit, the District placed a levy on the March 18, 2020 ballot. The levy was defeated with approximately 57 percent votes against it. Due to the declining fiscal condition of the District, and in consultation with ODE, we chose to conduct a performance audit.



## Financial Condition Overview (November 2019)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Revenue	\$7,463,911	\$7,486,998	\$7,510,315	\$7,533,865	\$7,557,652
Total Expenditures	\$7,723,474	\$7,907,958	\$8,255,654	\$8,502,849	\$8,761,072
<b>Results of Operations</b>	<b>(\$259,563)</b>	<b>(\$420,960)</b>	<b>(\$745,339)</b>	<b>(\$968,984)</b>	<b>(\$1,203,420)</b>
Beginning Cash Balance	\$666,791	\$407,228	(\$13,732)	(\$759,071)	(\$1,728,055)
<b>Ending Cash Balance</b>	<b>\$407,228</b>	<b>(\$13,732)</b>	<b>(\$759,071)</b>	<b>(\$1,728,055)</b>	<b>(\$2,931,475)</b>
Encumbrances	\$126,000	\$126,000	\$126,000	\$126,000	\$126,000
Budget Reserve	\$28,321	\$28,321	\$28,321	\$28,321	\$28,321
<b>Ending Fund Balance</b>	<b>\$252,907</b>	<b>(\$168,053)</b>	<b>(\$913,392)</b>	<b>(\$1,882,376)</b>	<b>(\$3,085,796)</b>

Source: ODE

After the initial engagement of this performance audit, and before the start of the FY 2021 school year, FHEVSD reduced staffing levels to assist in balancing its budget and achieving financial stability. This was done through a reduction in force and through attrition. The following chart shows the District's financial condition as projected in its November 2020 five-year forecast. This chart reflects a portion of the forecast.

## Financial Condition Overview (November 2020)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Total Revenue	\$7,272,947	\$6,966,915	\$6,977,803	\$6,988,744	\$6,999,739
Total Expenditures	\$6,818,267	\$7,050,981	\$7,298,186	\$7,559,900	\$7,837,327
<b>Results of Operations</b>	<b>\$454,680</b>	<b>(\$84,066)</b>	<b>(\$320,383)</b>	<b>(\$571,156)</b>	<b>(\$837,588)</b>
Beginning Cash Balance	\$423,530	\$878,210	\$794,144	\$473,760	(\$97,396)
<b>Ending Cash Balance</b>	<b>\$878,210</b>	<b>\$794,144</b>	<b>\$473,761</b>	<b>(\$97,396)</b>	<b>(\$934,984)</b>
Encumbrances	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000
<b>Ending Fund Balance</b>	<b>\$728,210</b>	<b>\$644,144</b>	<b>\$323,761</b>	<b>(\$247,396)</b>	<b>(\$1,084,984)</b>

Source: ODE

The District's November 2020 five-year forecast projects a negative fund balance beginning in FY 2024, ending with a total fund deficit of approximately \$1.1 million in FY 2025. The shift in financial outlook is primarily due to reduced expenditures from the reduction in staff.

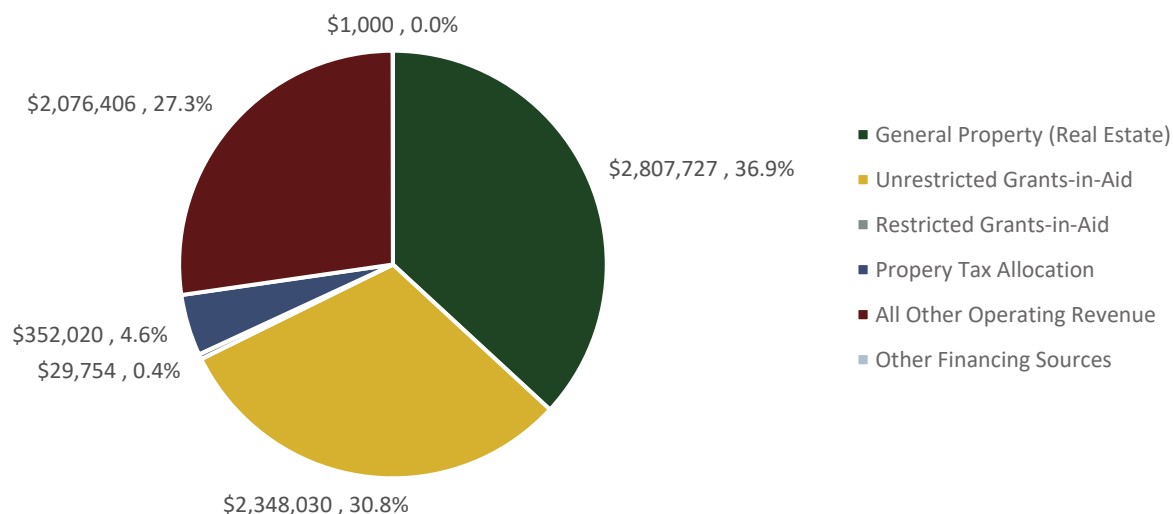
## Revenues

FHEVSD received approximately \$7.6 million in revenue in FY 2020. The majority of this funding, approximately 68 percent, came from general property taxes and unrestricted grants-in-aid, primarily state foundation funding. All other operational revenue, which is primarily revenue

from open enrollment students entering the District, accounted for approximately 27 percent of revenue, while the remaining 5 percent was derived through a variety of other sources.<sup>3</sup>

In FY 2020, FHEVSD received the calculated state funding amount of \$4,007,409.09.<sup>4</sup> Per ODE, “The amount of state funds that a district receives is based on a formula that takes into account the student enrollment and the property wealth of the district.” The District saw a decrease in enrollment in FY 2020 and again in FY 2021.

### FY 2020 General Fund Revenue Composition



Source: ODE

## Local Tax Revenue

### Property Tax

Property taxes levied by Ohio school districts are subject to restrictions in the Ohio Constitution<sup>5</sup> and the Ohio Revised Code (ORC).<sup>6</sup> Each school district receives a portion of the first 10 mills<sup>7</sup> of property tax that is levied on every parcel of taxable property in the school district. This is

<sup>3</sup> In addition to the state foundation formula, districts receive state aid through what is known as the ‘property tax allocation.’ Included in the property tax allocation payments are receipts to offset lost property tax resulting from the phase-out of the general business tangible personal property tax (TPP) and the reduction of property tax assessment rates on utility property. Also included are payments to reimburse revenue lost due to property tax relief programs granted by the state to taxpayers under the Homestead Exemption program and property tax rollbacks such as the non-business credit (former 10 percent credit) and the owner-occupied credit (former 2.5 percent credit).

<sup>4</sup> The Ohio General Assembly suspended use of the foundation formula in July 2019 and froze state aid payments calculated by the foundation formula at their FY 2019 level for the foreseeable future.

<sup>5</sup> Article XII, section 2 of the Ohio Constitution

<sup>6</sup> ORC § 5705.02

<sup>7</sup> Property tax rates are computed in mills. A mill is 1/1000 or .001. One mill costs a property owner \$1.00 for every \$1,000 of taxable value.

known as inside millage and revenue collected by a school district on this millage increases as property values increase. School districts are also permitted to levy additional taxes in excess of the first 10 mills if approved by a vote of its residents. This is known as outside millage. Outside millage is subject to what is known as tax reduction factors, which restrict the revenue raised by outside millage property taxes to what is raised in the first preceding year of collections.<sup>8</sup> The tax dollars levied using inside and outside millage are used to fund the school district's operations.

As a result of House Bill 920, passed in 1976, the amount collected on all outside millage is frozen at the dollar value collected in its first year. In subsequent years, as property values rise a school district would not receive additional revenue, and instead the effective millage rate is reduced in order to maintain the preceding year's level of revenue from the same properties<sup>9</sup> There is a minimum current expense<sup>10</sup> millage floor of 20 mills, which means that tax reduction factors cannot be applied to reduce the millage for current expenses to less than 20 mills (this assumes that the sum of the rates at which the taxes are authorized to be levied exceeds 20 mills; if it does not, the smaller sum is used). A school district can receive additional revenue on outside millage if there is new residential or commercial construction within the school district or if reduction factors decrease the effective current expense millage to the 20-mill floor. When this happens, state law does not allow the current expense millage to be adjusted downward any further, meaning that the 20-mill minimum rate may now be applied to increased property values in addition to new construction.

The District collected revenue on 5.24 inside mills and 42.05 outside mills (after tax reduction factors) in Tax Year 2019 (collection in 2020) for its General Fund current expenses. As such, the District is not at the "20-Mill floor."

## Inside Millage

In Ohio, millage is referred to as "inside" millage and "outside" millage. Inside millage is millage provided by the Constitution of the State of Ohio and is levied without a vote of the people. It is called inside millage because it is "inside" the law. Another name would be un-voted millage.

The Constitution allows for 10 mills of inside millage in each political subdivision. Public schools, counties, townships, and other local governments are allocated a portion of the 10 inside mills.

## Outside Millage

Outside millage is any millage "outside" the 10 mills that is provided by the Constitution of the State of Ohio. This millage is voted in by the public. Another name for outside millage is voted millage. This millage can be used for general purposes or be restricted, it depends on the language of the law which enables it.

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<sup>8</sup> ORC § 319.301

<sup>9</sup> We are providing this information for historical purposes only. The law which regulates collection of on outside millage has been amended since enacted in 1976. The District should consult with the most current version of the law for a clear understanding of how this process works today.

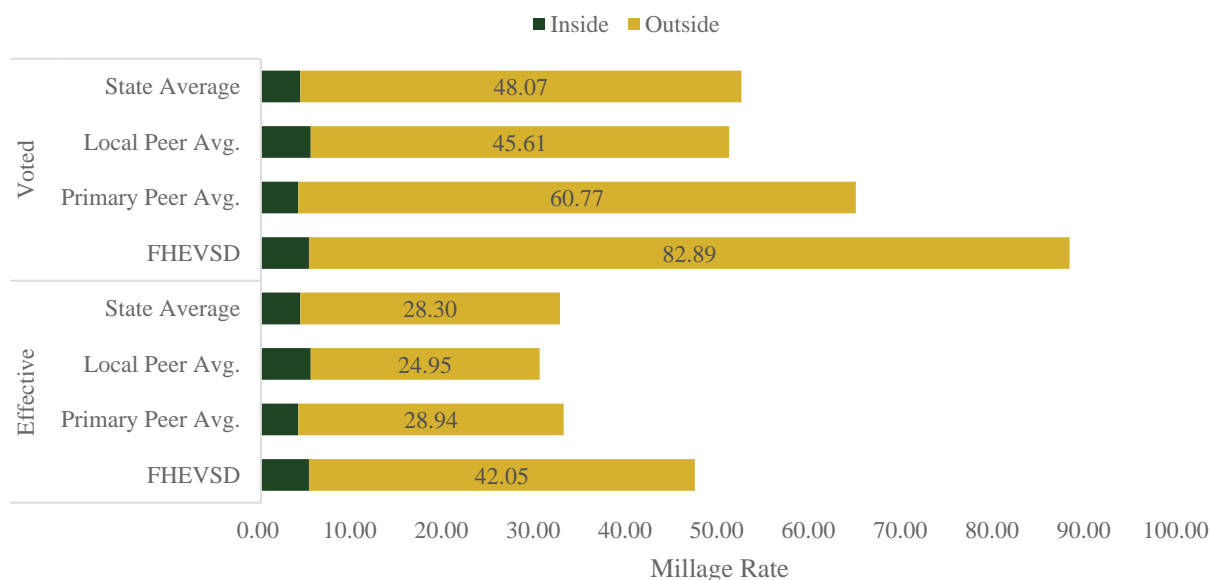
<sup>10</sup> The term 'current expense' refers to revenue generated from levies that are not restricted in their use. It does not include bonds or levies that generate revenues for restricted funds, such as Permanent Improvement levies.

## Revenue Comparisons

### Property Tax Rates

The chart below reflects the District’s voted and effective millage rates in comparison to the primary peers, local peers, and the state average. This is important for demonstrating the degree to which FHEVSD’s operation is supported by local revenue relative to similar districts.

FY 2020 Voted v. Effective Millage Rates Comparison



Source: FHEVSD and Ohio Department of Taxation

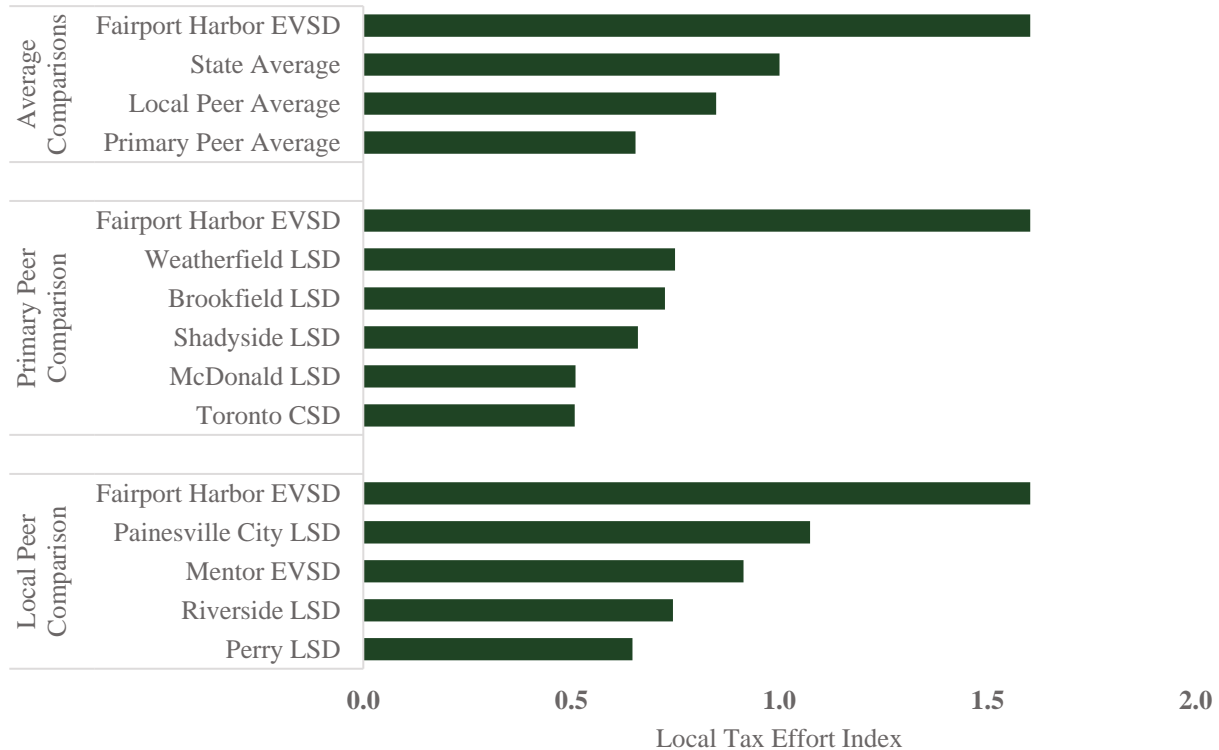
The District’s FY 2020 voted millage totaled 88.13 mills, however due to the reduction factor discussed in the previous section, the effective collection rate totaled 47.29 mills. By comparison, both the District’s voted and effective millage rates are higher than the local peers, primary peers, and state-wide average.

### Local Tax Effort

ODE uses the Local Tax Effort Index as a measure of taxpayer support for the district in which they reside. This index provides context to better understand a community’s tax burden, not only compared to other districts, but also as a function of the residents’ ability to pay. On this sliding scale, a value of 1.0 indicates the state average, a baseline against which all districts in the state are weighed. If a district has a local tax effort below 1.0, residents provide a smaller portion of their available income to public education whereas a value above 1.0 indicates the community pays a larger portion of their available income to public education compared to the state average. The index is updated annually by ODE as part of its District Profile Reports, also known as the Cupp Report, to reflect changes in local conditions from year to year.

The following chart reflects the District’s local tax effort in comparison to the primary peers and local peers. This is important for demonstrating the degree to which FHEVSD’s operation is supported by local revenue relative to similar districts.

### FY 2020 Local Tax Effort Comparison



Source: ODE

The District’s FY 2020 local tax effort was 1.6026, which is above the local peers, the primary peers, and the state-wide average, signifying that it receives more means-adjusted local taxpayer support than the local and primary peers.<sup>11</sup> FHEVSD’s local tax effort could change as a result of the passage of any additional levy initiatives, such as a levy for raising local dollars for the construction of a new school building.

<sup>11</sup> A district with a local tax effort below 1.0, residents provide a smaller portion of their available income to public education whereas a value above 1.0 indicates the community pays a larger portion of their available income to public education compared to the state average.

# Special Consideration: Open Enrollment

## Background

The Ohio General Assembly passed open enrollment into law in the Omnibus Educational Reform Act of 1989, or Senate Bill 140. Initially, students were only allowed to open enroll into adjacent school districts. However, in July 1998, the General Assembly passed House Bill 497, which permitted students to enroll in any district in the State.<sup>12</sup> Section 3313.98 of the Ohio Revised Code (ORC) requires certain school districts to adopt a resolution establishing one of the following:

- Entirely prohibits open enrollment into their district;
- Permits open enrollment of all students; or
- Permits open enrollment of students only from adjacent districts.

The District has adopted a resolution permitting open enrollment of all students. In FY 2020, the District had students open enroll from 12 other districts.<sup>13</sup> ORC § 3313.98 also requires school districts with an open enrollment policy permitting the enrollment of students from all districts to have additional procedures including:

- Application procedures, including deadlines for application and 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 limits by grade level, school building, and educational 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.

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<sup>12</sup> We are providing this information for historical purposes only. The law which regulates open enrollment has been amended since enacted in 1989. The District should consult with the most current version of the law for a clear understanding of how this process works today.

<sup>13</sup> Ashtabula Area City School District, Chardon Local School District, Cleveland Municipal School District, Euclid City School District, Geneva City School District, Madison Local School District, Mentor Exempted Village School District, Painesville Local School District, Perry Local School District, Riverside Local School District, Wickliffe City School District, and Willoughby-Eastlake City School District.

## Policies and Procedures

The District has two Board of Education policies regarding open enrollment: Interdistrict Open Enrollment Policy and the Intradistrict Open Enrollment Policy. The Interdistrict Policy is for students enrolling into FHEVSD from any public school district in Ohio. The Intradistrict Policy permits students to attend the school of their choice within FHEVSD.

According to the Interdistrict Open Enrollment Policy, “The Fairport Harbor School Board of Education shall permit students from any public school district in Ohio to enroll in the schools of this district without the payment of tuition, subject to the terms established by law and the application rules, regulations, and procedures of the Board.” The policy also states:

- “The Superintendent or designee shall develop all necessary application procedures and forms as are necessary to implement the provisions of this policy.”
- “As determined by the administration, admission may be denied when it would result in a violation of either the terms on any collective bargaining agreement or a minimum standard established by the Ohio Department of Education regarding class size limitations.”
- “Requirements for admission shall not be based upon a student’s disability; however, no student with disabilities shall be admitted if: (A) the district does not have the program needed to fulfill the student’s IEP; or (B) the district’s special education classes for its native students, or classes offered for students with disabilities as part of a multi-district or consortium arrangement, have reached, or will imminently reach, enrollment level caps.”
- “A student’s application for interdistrict open enrollment will be approved unless that student’s enrollment causes the total enrollment to exceed the acceptable and reasonable limits for classroom size. Once accepted by the district, no student will be displaced during the current school year should enrollment exceed the limits set above.”

According to the CBA between the Fairport Harbor Education Association and the Fairport Harbor Board of Education, “The Board and the Association recognize that the pupil-teacher ratio is an important aspect of the effective educational program. Therefore, they agree that the class/grade sizes set forth below shall be established for the maximum number of pupils per teacher.

- Kindergarten – Grade 2: Not to exceed twenty-five (25);
- Grades 3-5: Not to exceed twenty-seven (27); and
- High School (Grades 6-12): Not to exceed thirty (30).”

FHEVSD does not have any other policies, written procedures, or planning documents surrounding the open enrollment practices and management at the District. The District appears to follow its Interdistrict Open Enrollment Policy.

# Open Enrollment Revenue

## State Funding

School districts receive state funding through the foundation funding formula. In FY 2019, the State of Ohio distributed \$8,239,909,578 in state foundation funding to its 612 school districts through the foundation formula. The primary component<sup>14</sup> of the formula is the Opportunity Grant. The grant is calculated according to the following formula: The formula amount X (formula average daily membership (ADM) plus preschool scholarship ADM) multiplied by the district's state share index.

In 2019, the formula amount was \$6,020. ORC § 3317.03(b) establishes how students are counted for the purposes of ADM for city, local, exempted village, and joint vocational school districts. The State Share Index of each school district reflects the wealth of the district as measured by property valuation and income of the residents calculated for the purposes of the distribution of state funds through the foundation formula. The purpose of this Index is to equalize the distribution of funds among school districts.

Am. Sub. House Bill 166 of the 133<sup>rd</sup> Ohio General Assembly established procedures for calculating the state foundation formula funding of public elementary and secondary education in fiscal years 2020 and 2021. According to the Bill, for FY 2020 each school district received foundation formula funding equal to the sum of the state payment the district received in FY 2019.<sup>15</sup> The FY 2020 foundation formula also includes the reductions that were applied in response to the COVID-19 pandemic emergency declaration.

On May 5, 2020, Governor Mike DeWine ordered ODE to reduce state foundation funding by \$300.5 million before the end of FY 2020. The ordered reductions were made using an equalized per pupil approach. This generally results in more modest reductions to districts with less local capacity and is considered to be more equitable than either a flat, per pupil reduction approach or a reduction in the percentage of state aid. The reductions range from \$88.76 per pupil for the districts with the lowest local capacity, to \$304.32 for the districts with the highest local capacity. FHEVSD's per pupil reduction amount was calculated at \$180.95 per pupil. The total reduction amount was \$69,838.

In addition to the formula funding, state aid for special education and related services is included in the foundation payments and based on specific formulas.<sup>16</sup> In addition to state aid through the foundation program, Property Tax Rollback Payments are made from the state to school districts to reimburse revenue lost due to property tax relief programs granted by the state to taxpayers

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<sup>14</sup> In FY 2019, the Opportunity Grant made up 45 percent of FHEVSD's total formula funding. Other components of the formula funding include, but are not limited to, Targeted Assistance, Economic Disadvantage Funding, and Capacity Aid.

<sup>15</sup> ORC §§ 3317.022, 3317.0212, and 3314.091(D)(2).

<sup>16</sup> In FY 2020, the Student Wellness and Success Funding, Enrollment Growth Supplement Funding, Preschool Special Education Funding, and Special Education Transportation Funding were included in the additional aid items.



under the 10% and 2.5% property tax rollback programs and under the Homestead Exemption program.

## Open Enrollment Revenue

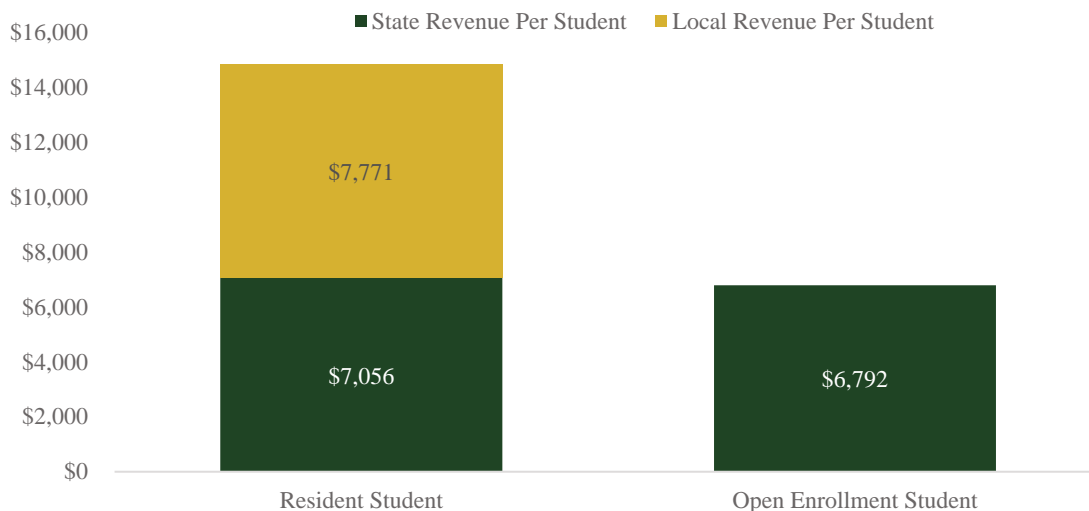
When student open enroll into a district outside their district of residence, the resident district transfers the full opportunity grant to the educating district to which the student open enrolls into. In FY 2020, school districts received the full opportunity grant of \$6,020 for each open enrolled student FTE. This amount was not reduced to the COVID-19 pandemic. In addition to receiving the transfer of the opportunity grant, school districts educating special education students accepted through open enrollment may bill the resident school district for “excess costs.”

Pursuant to ORC § 3323.14 and ODE guidance, excess costs are defined as the cost to educate a special needs student minus the amount of state and local funds received for educating that student. Districts incurring excess costs may seek reimbursement after the end of the fiscal year by filing an excess costs application and providing supporting documentation. ODE will certify the amount of state and local funds received, calculate the excess cost amount, and will then transfer that amount from the district of residence to the educating district.

## Local Funding

Local revenues are generated from the District’s property taxes and voted tax levies (see **Local Tax Effort**). As previously discussed, the District’s FY 2020 local tax effort was 1.6026, which is above the local peers, the primary peers, and the state-wide average, signifying that it receives more means-adjusted local taxpayer support than the local and primary peers.

FY 2020 FHEVSD State & Local Revenue per Student



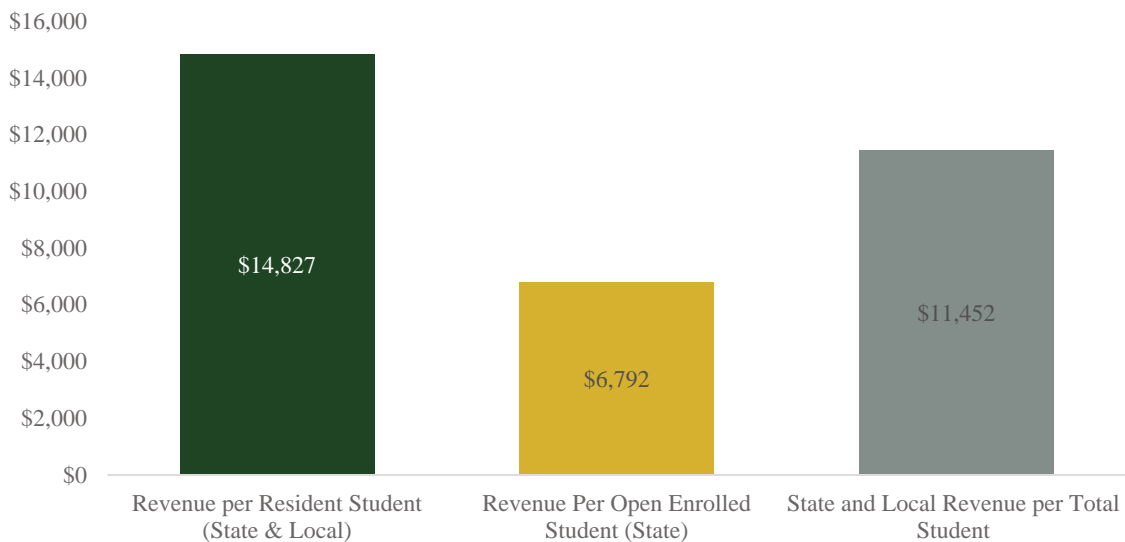
Source: ODE and FHEVSD

In FY 2020, the local revenue generated by the District equaled nearly \$7,800 per resident student. The majority of FHEVSD local funding, or 93.4 percent comes from General Property

Real Estate Taxes, and approximately 6.6 percent is classified as other operating revenue,<sup>17</sup> which could be interest on investments or donations.

While open enrollment students generate comparable state funding, local funding does not transfer from an open enrollment student’s home district to the district they choose to attend. Therefore, local taxpayers contribute to the education of open enrollment students in their district, as shown in the chart below.

### FY 2020 FHEVSD Revenue per Student



Source: ODE and FHEVSD

Regardless of the number of open enrollment students entering FHEVSD, opportunity grant per student will remain the same. However, when looking at the aggregate, the District does have a potential to increase the total revenue with each additional student who open enrolls in. This is optimal when the addition of these students would not require the need to hire additional staff. In other words, revenue would increase but expenditures would not significantly increase. When evaluating the class sizes in FY 2020 and the available “seats” in relation to the state minimum (one teacher per 25 students), FHEVSD could have added an additional 129 students, which would have resulted in a revenue increase of approximately \$776,000. While operating at this full capacity is unrealistic as it is uncommon to staff to state minimums, this shows that there is some opportunity to increase total revenue by filling available spots with the current staffing levels.

<sup>17</sup> Other operating revenue within the forecast actuals includes the open enrollment adjustment (the revenue from entering open enrollment minus the expenses for resident open enrollment exiting). This was not included in the local revenue within this analysis, as the full amount of open enrollment revenue received for incoming students is reflected separately in the open enrollment per student bar.

## Open Enrollment Cost

Determining the cost to educated open enrollment students is not a straightforward task because of the many expenses a district incurs that are not evenly distributed or spent on students. While the majority of school districts' expenditures are dedicated to the salaries and benefits of instructional and support staff, other expenses include the operation and maintenance of buildings and grounds, fiscal services, supplies and materials, tuition payments to other school districts, transportation, food services, and extracurricular activities.

Not all expenditures are directly tied to the number of students receiving education. There are certain fixed costs the District will incur regardless of the number of students in attendance. There are other costs that may be reduced in some manner with fewer students, but not reduced at the same percentage of those students as a percent of the total population. Because of these aforementioned points, we closely evaluated those individual expenditures within each expenditure category to determine the appropriate cost allocation to attribute to the open enrollment education. Five different factors were developed and used in determining the cost to educated open enrollment students at FHEVSD:

- Fixed Costs (0.0 percent)
  - It was determined that these costs would remain consistent, regardless of the number of students enrolled.
- Regular Instruction Costs (31.3 percent)
  - This percentage was determined by evaluating the potential reduction of instructional staff if open enrollment students were not present at the District. Specifically, it represents the percent of “extra” instructional staff required to provide education to the open enrollment population.
- Special Instruction Costs (45.4 percent)
  - Special instruction expenditures and special education support services were multiplied by the open enrollment special education students as a percentage of the District’s total special education students.
- Operations and Maintenance Costs (26.2 percent)
  - The salaries and benefits of those employees in this category (primarily custodians) were reduced in the same way as the instructional staff. While a decrease in enrollment would reduce the cleaning needs and potentially close a building, there are still some fixed costs surrounding this and therefore it is not realistic to assume those costs would decrease at the percentage of students.
  - The utilities portion of this factor was evaluated based on the potential that if the District were to discontinue open enrollment and close its smaller school building, reductions will result from reduced utility costs), maintenance costs, and supplies.
- Open Enrollment as a percent of the Total Student Population (43.8 percent)
  - Some expenses were multiplied by the total percent of open enrollment students, as these expenses may be able to be reduced at that same percentage due to the nature of the expense (i.e. extracurricular activities and food service).

The following chart shows expenditures, by function, attributed to educating open enrollment students based upon the breakdown of costs shown in the methodology.

## FY 2020 Open Enrollment Cost Breakout

<b>Expenditure Type<sup>1</sup></b>	<b>Total Cost</b>	<b>Open Enrollment Cost</b>
Regular Instruction	\$3,714,399	\$1,160,750
Special Instruction	\$840,309	\$381,702
Other Instruction	\$262,789	\$0
Support Services Pupils	\$314,052	\$58,641
Support Services Instructional Staff	\$199,175	\$62,242
Support Services - Board of Education	\$69,016	\$0
Support Services Administration	\$885,774	\$262,461
Fiscal Services	\$156,788	\$0
Support Services Business	\$60	\$0
Operation and Maintenance of Plant Services	\$585,619	\$153,174
Support Services Pupil Transportation	\$31,312	\$13,704
Support Services Central	\$99,528	\$0
Food Service Operations	\$35,659	\$15,607
Extracurricular Activities	\$267,419	\$117,041
<b>Total Expenditures</b>	<b>\$7,461,898</b>	<b>\$2,225,323</b>
<b>Total Revenue</b>	<b>\$7,639,163</b>	<b>\$1,903,177</b>
<b>Net Revenue / (Loss)</b>	<b>\$177,265</b>	<b>(\$322,146)</b>

Source: FHEVSD

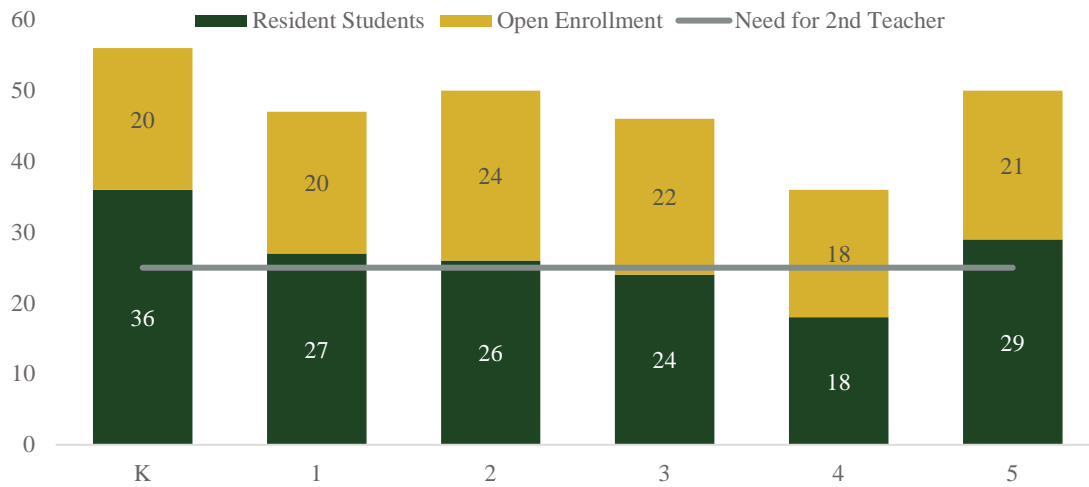
<sup>1</sup>Expenditure Type as defined by USAS

Note: Total expenditures mirror those actuals from the forecast. However, total revenue is slightly higher. The reason is because the revenue received for open enrollment is reflected in the forecast as an adjustment (the open enrollment revenue coming in minus that open enrollment payment going out). In order to capture the full open enrollment revenue received to those students coming in, this revenue was collected directly from the foundation payment detailed report (opportunity grant x students coming in plus the excess cost collected).

FHEVSD's open enrollment expenses exceed the open enrollment revenue by \$322,146 in FY 2020. An important consideration about the data in the above chart is that if the District were to succeed in reducing costs by implementing the recommendations in this report, the total cost column would decrease, and consequently so would the open enrollment cost. For FY 2020 to FY 2021, the District projected a reduction of expenditures by \$868,631, or 11.6 percent. Much of this was accomplished through a reduction of staff, and therefore salaries and benefits. Any reduction of variable costs to the total cost column will have an impact on the cost to educate open enrollment students.

Evaluating the open enrollment by grade level provides additional insight into how operations are impacted. The following chart shows how each elementary grade level (K-5) at FHEVSD has two teachers, and at what point the need for a second teacher becomes an option in relation to the open enrollment population by grade. Generally, the local student population necessitates the addition of a second teacher, and therefore the open enrollment student population is not contributing to a significant addition of staff.

## FY 2020 FHEVSD Elementary Enrollment



Source: FHEVSD – These enrollment numbers were provided and verified by the district. They reflect the headcount of enrolled students and therefore may vary slightly from the student FTEs numbers used in the aggregate comparison in the background.

## Open Enrollment Summary

FHEVSD has a significant number of incoming open enrollment students. While these additional students financially impact operations, this is not the only consideration in the operation of such a policy. In FHEVSD, the addition of this student population allows the District to provide a greater range of educational and extracurricular services and programs to the students it educates. To continue operating the same programming in the absence (or decrease) of open enrollment students would require additional local support in the form of taxes or the elimination or reduction of the current services and programs offered. The open enrollment population and how it is funded is a critical element to be considered in the formal planning efforts of the District (see **R.1**).



### NOTE TO REPORT USERS:

Subsequent to our analysis, the Ohio House of Representatives included in their version of the budget bill a complete re-write of the school funding formula, which significantly impacts the way open enrollment is financed. Should this language take effect, the analysis contained in this report would need to be re-evaluated in light of the new funding structure.

# Results of the Audit

After initial analysis of the District’s data as compared to its peer groups, we included the following scope areas for detailed review and further analyses: Strategic and Capital Planning, Open Enrollment, Extracurricular Activities, Human Resources, and Insurance. Based on industry standards and peer analysis, we identified five recommendations which would result in reduced expenses or improve the District’s operational management. We also identified an issue for further study. A summary of our recommendations and their average annual savings are listed in the table below.

## Summary of Recommendations

<b>Recommendations</b>	<b>Savings</b>
R.1 Strategic & Capital Planning	N/A
R.2 Extracurricular Activities	\$182,200
R.3 Evaluate Psychology Services Options	\$52,300
R.4 Eliminate Lunch Monitor Positions	\$37,700
R.5 Insurance	\$180,200
Cost Savings Adjustments <sup>1</sup>	(\$4,600)
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$447,800</b>

<sup>1</sup> Implementation of **R.3** would reduce the saving achievable from **R.5**

Implementation of these recommendations beginning in FY 2022 would fully eliminate the projected negative ending fund balances years four and five of the five-year forecast.

# Financial Systems

Any organization needs to consider both short-term needs and long-term goals when developing policies and procedures related to financial management. This requires strategic planning in order to identify the best use of available resources. School districts in particular must have sound planning processes in place so that they can effectively and transparently provide services to their residents. We reviewed FHEVSD's financial management policies in order to determine if there were areas for improvement.

## Recommendation 1: Strategic and Capital Planning

The District should develop a long-term strategic plan and continue to develop a multi-year capital plan which are linked to the budget. The District's multi-year capital plan should follow criteria provided by the Government Finance Officers Association (GFOA).

### Impact

While there is no direct financial implication of this recommendation, developing long-term strategic and capital plans linked to the budget could provide the District with necessary guidance on overall spending and program allocations based on outcome. The development of these plans could also assist the District in operating more efficiently and effectively long-term through informed decision making.

### Background

#### Strategic Planning

FHEVSD does not have a comprehensive strategic plan that guides long-term operations and spending decisions, nor does it have a formal capital plan linked to the budget. As a result, the District's annual budget is not directly linked to formal goals, objectives, or performance measures.

As discussed above (see **Open Enrollment**), FHEVSD has a significant number of incoming open enrollment students which financially impact District operations. At the same time, offering open enrollment provides the District with a student population 77.8 percent higher than what it would be if the District were only educating its resident students. This additional student base allows the District to provide educational and extracurricular offerings it may not be able to otherwise provide. The absence, or decrease, of open enrollment students in attendance would require the District to evaluate its services and programs and its taxpayers to make critical decisions in regard to funding operations. In addition to changes in enrollment, any changes by the legislature on how schools are funded could have a significant impact on how open enrollment impacts the District's operations. In order to remain a viable district without open enrollment would require additional local support in the form of taxes or significant elimination or reduction of current programs being offered.

Outside of the standard Board policy, the District does not have strategic goals or objectives in regard to open enrollment and how this impacts its operations. These considerations are important to guide short and long term decisions for the District.

## **Capital Planning**

The District is currently in the planning stages of developing a formal capital plan. The District has been discussing a project with the Ohio Facilities Construction Commission (OFCC). Initially, the District was eligible for the Classroom Facilities Assistance Program (CFAP) through the OFCC. However, due to the program’s demand, the OFCC notified the District in 2019 that funding for the program was being delayed. In addition to demand delaying funding, the COVID-19 pandemic also delayed all OFCC projects.

Since CFAP funding was pushed back, FHEVSD applied to the Expedited Local Partnership Program (ELPP) in the spring of 2020. The ELPP would allow the District to move forward with a building project using local funding, with funding from the OFCC coming in later. The District’s equity rank at the time of reporting qualifies them for 93 percent funding from the State while being responsible for funding seven percent of the project locally. If the District decides to move forward with the ELPP, it would need to go for a November 2021 ballot attempt for the project. With that, a defined project scope would need to be voted on by the Board by May/June 2021 to get OFCC approval by August 2021. District officials have indicated a desire to utilize the ELPP, but the Board has yet to take any action on the matter.

## **Methodology**

The GFOA provides guidance to governmental entities in the development and maintenance of effective long-term planning.

## **Analysis**

Establishment of Strategic Plans (GFOA, 2005) indicates that governments should develop a strategic plan 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 on 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 the 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.



Long-Term Financial Planning (GFOA, 2008) specifies that long-term financial planning should encompass the following elements:

- Planning at least five to ten years into the future;
- Considering all appropriated funds;
- Updating long-term planning activities as needed in order to provide direction to the budget process;
- Analyzing the financial environment, revenue, and expenditure forecasts, debt position and affordability analysis, strategies for achieving and maintaining financial balance, and a plan for monitoring mechanisms, such as a scorecard of key indicators of financial health, and;
- Informing the public and elected officials about the long-term financial prospects of the government and strategies for financial balance.

Multi-Year Capital Planning: Best Practice (GFOA, 2006), recommends that public entities create and implement a multi-year capital plan as a component of their comprehensive strategic plan. An adequate capital plan should:

- Identify and prioritize expected needs based on the entity's strategic plan;
- Establish project scopes and costs;
- Detail estimated amounts of funding from various sources; and
- Project future operating and maintenance costs.

## **Conclusion**

FHEVSD is currently unable to effectively address District needs due to not having formal strategic and capital plans linked to the budget. Therefore, the District should concurrently develop such plans in order to improve program and funding decisions. 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.

## Recommendation 2: Extracurricular Activities

FHEVSD should reduce the General Fund subsidy of extracurricular activities to the local peer level.

### Impact

Reducing expenditures and/or increasing revenue to bring the General Fund subsidy of extracurricular activities in line with the local peer average would save the District an average of \$182,200 annually in each year of implementation.

### Background

FHEVSD has been using a larger portion of its General Fund subsidy to go towards extracurricular activities than local peers, particularly in regards to sports-oriented activities. The cost per pupil has increased over the last three years.

### Methodology

The District's per pupil General Fund subsidy for extracurricular activities was compared to the local peer average, as was the usage of pay to participate fees.

### Analysis

The District spent approximately \$367,500 on student extracurricular activities in FY 2020. That sum also included the salaries and benefits of directors, coaches, and advisors; supplies and materials; awards and prizes; and other miscellaneous expenditures. More than \$311,000, or 84.7 percent, of expenditures were subsidized by the General Fund. On a per pupil basis this equates to a General Fund expenditure of \$494.32 per pupil. We compared the District's per pupil General Fund subsidy for extracurricular activities to local peer averages. The local peer average was \$205.15 per pupil, which is a difference of \$289.17. Lowering per pupil spending to the peer average would reduce the total General Fund subsidy by approximately \$182,200 (see **Appendix B** for additional analysis).

Three out of four local peer districts implement pay to participate fees. FHEVSD does not. To better align itself with local peer averages and reduce the General Fund subsidy for extracurricular activities, FHEVSD should also implement pay to participate fees.

### Conclusion

The District subsidizes its extracurricular activities on a per pupil basis to a greater degree than the local peers. FHEVSD should reduce subsidies for extracurricular activities to be in line with peer averages. The District should consider implementing one or more of the following steps to reduce the General Fund subsidy to the level of the local peers:

- Implement pay to participate fees for extracurricular activities;

- Increase admissions and sales;
- Increase booster club funding;
- Reduce the supplemental salary schedule; and/or
- Eliminate programs

Instituting any of these measures would help reduce the General Fund subsidy, allowing more resources to be dedicated to student instruction. However, the District leadership should continue to consider the impact on families and students within FHEVSD resulting from the implementation of any of these measures.

# Human Resources

Human resource expenditures are significant to both the operational and financial conditions within school districts. Specifically, personnel costs (i.e. salaries and benefits) accounted for approximately 70 percent of FHEVSD's General Fund expenditures in FY 2020. OPT reviewed FHEVSD's staffing levels, salaries, collective bargaining agreements (CBA) provisions compared to peer districts as well as the Ohio Revised Code (ORC) and Ohio Administrative Code (OAC) requirements to determine areas where the District could save money through reductions.<sup>18 19</sup> Additionally, we compared the district's medical, dental, and vision insurance to the State Employee Relations Board's (SERB) regional averages. Our analysis resulted in three recommendations and an issue for further study.

## Recommendation 3: Evaluate Psychology Services Options

The District should evaluate options to provide psychology services to District students to determine if a more affordable method exists, in which students would not suffer the loss of the service but that the District would recognize financial savings to the General Fund. The District should evaluate other options to provide psychology services to students that would not require a full-time employee. These options may include contracting the service through the Educational Service Center (ESC) or utilizing a part-time employee to fill this need.

### Impact

If FHEVSD reduced its costs dedicated to psychology services, it could save an average of \$52,300 over the forecasted period of four years, with implementation not beginning until FY 2022. This estimated saving was calculated using the average cost of a psychologist from the ESC, shared with another school district. The District would save on the position's salary as well as the health insurance costs it currently pays for the psychologist position.

### Background

School districts across Ohio provide psychology services to students in different ways. FHEVSD provides these services through employing a full-time psychologist as a District employee.

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<sup>18</sup> Special education and Title I staffing levels were excluded from staffing comparisons due to the unique requirements of Individual Education Program (IEP). All conclusions regarding the relative appropriateness of staffing are based solely on non-special education staff for both FHEVSD and the primary peers. **Appendix C** contains additional detail regarding our methodology for the staffing analysis.

<sup>19</sup> Our analysis of the District's salaries and CBA provisions did not result in a recommendation as they were in alignment with or below peer averages and state requirements. See **Appendix C** for additional information.

## Methodology

FHEVSD was compared to the primary peers' methods of staffing a school psychologist.

- Brookfield Local School District – Purchases services from the ESC;
- McDonald Local School District – Purchases services from the ESC two days per week;
- Shadyside Local School District – Employs its own psychologist who also splits time serving as the District's special education coordinator;
- Toronto City School District – Purchases services from the ESC two days per week. The District spent approximately \$43,200 in FY 2021 on that service; and
- Weathersfield Local School District – Employs its own psychologist.

## Analysis

FHEVSD is 0.80 FTEs above the primary peer average for school psychologists. Many of the peers contract out for psychology services through their ESC. Often when psychology services are contracted, the contracted staff may work fewer than five days a week and could be shared with a neighboring district in the ESC, therefore sharing the cost. In FY 2021, FHEVSD's school psychologist made a salary of \$65,723. Including benefits, the total cost is \$90,426.

## Conclusion

By evaluating its options, including contracting services with an ESC and utilizing a part-time psychologist, FHEVSD could realize potential average cost savings of approximately \$52,300 annually.

## Recommendation 4: Eliminate Lunch Monitor Positions

FHEVSD should eliminate its lunch monitor positions and consider using current staff to cover these duties.

### Impact

If FHEVSD reduced eliminated its lunch monitor positions, it could save an average of \$37,700 over the forecasted period of four years, with implementation not beginning until FY 2022.

### Background

In the monitoring position category, FHEVSD was above the peer average by 1.65 FTEs when comparing on a per 1,000 student basis. The District's staff in the monitoring position category are lunch monitors. FHEVSD has six positions, each compensated at \$9.00 per hour, up to three hours per day depending on the need. This number was and could also be affected by in-person versus at-home education.

### Methodology/Analysis

FHEVSD was compared to the primary peers' methods of staffing lunch monitors and delegating related duties.

- Brookfield Local School District – Does not have designated lunch monitor positions. Instead, aides and/or tutors help monitor or supervise with no additional pay for those duties;
- McDonald Local School District – Uses a combination of paraprofessionals and licensed staff to cover the lunch room without additional pay;
- Shadyside Local School District – Does not employ lunch monitors. Teachers' contracts include rotating lunch monitor duty without additional pay;
- Toronto City School District – Does not employ someone specific to monitor the cafeteria. Instructional aides and teachers are responsible for this duty without additional pay; and
- Weathersfield Local School District – Does not have lunch monitors. Teaching staff takes care of monitoring lunches.

### Conclusion

The District should eliminate its lunch monitor positions and delegate tasks to other District employees, much like the peers do, to realize average cost savings of approximately \$37,700 annually.

## Issue For Further Study: Building Administrators and Building Office Support Staff

The District was above the peer average in building administrators and building office support when examining staff on a per 1,000 student basis. The District has one principal and one secretary in each of its buildings. These positions can be evaluated on a per building basis as it is not a typical position to share between buildings and with only one position currently at each of the District's schools it would be difficult to make a reduction in this staffing area.

If FHEVSD moves forward with consolidating students into one new school building, it should evaluate the need of its building administrators and office support staff. With fewer than 700 students, the District may not require its current level of staffing if educating all students within one building.

## Recommendation 5: Insurance

FHEVSD should reduce the employer cost of medical, dental, and vision insurance.

### Impact

If the District aligns its employer costs for medical, dental, and vision insurance with the State Employee Relations Board's (SERB) regional averages, it could save approximately \$180,200 annually<sup>20</sup>.

### Background

FHEVSD participates in the Lake County Council of Governments Health Care Benefits Self-Insurance Program for its medical and vision insurance. The District uses Delta Dental for dental insurance.

### Methodology

SERB releases information related to public employee benefits. The premiums paid by FHEVSD were compared to the SERB Region 3 averages for medical, dental, and vision insurance. The District currently has a higher employer cost than the regional average for all three types of insurance.<sup>21</sup>

### Analysis

FHEVSD currently offers employees four medical insurance plan options, each of which offer single and family coverage:

- Standard PPO Plan 1;
- Standard PPO Plan 2;
- HDHP Plan; and
- Med Flex Plan.

The District does not currently have any employees enrolled in the HDHP Plan or the Med Flex Plan. Subsequently, our analysis focused on the costs associated with the Standard PPO Plans 1 and 2. At the time of analysis, the District had a total of 48 employees enrolled in medical plans, 46 employees enrolled in dental plans, and 48 employees enrolled in vision plans. Three of the employees enrolled in medical and vision plans at the time of analysis were employed by the Fairport Harbor Library and the District is reimbursed by the library for the cost of those insurance premiums. These employees were excluded from the peer comparison in order to avoid inflating the forecasted savings. Additionally, there is one part-time employee who pays a pro-

<sup>20</sup> The first year of savings is not realized until FY 2022 due to the fact that the District has an active collective bargaining agreement that does not expire until the end of FY 2021.

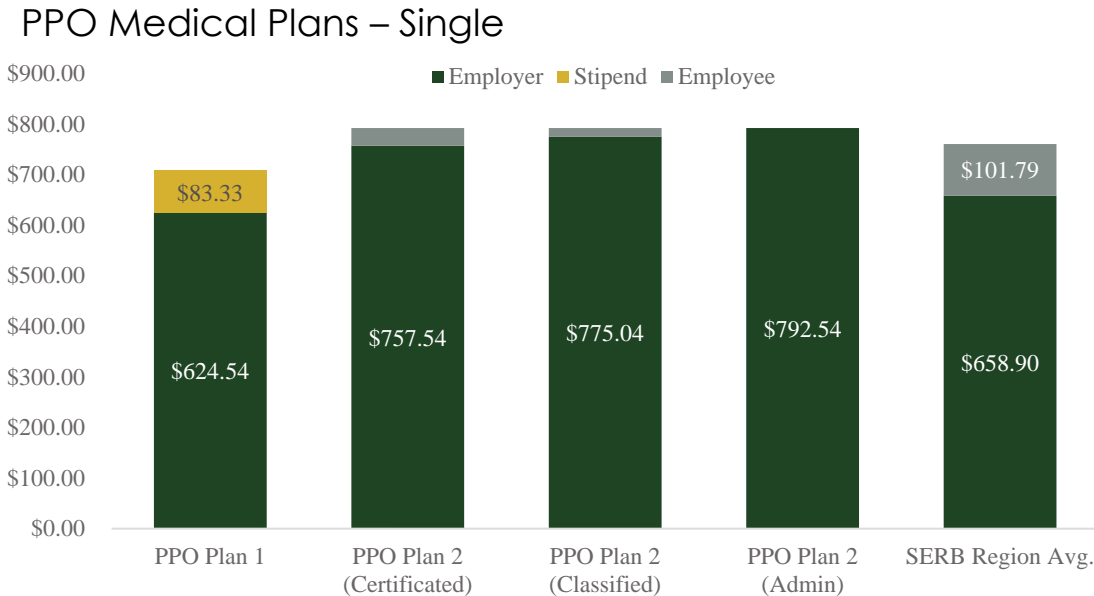
<sup>21</sup> The employer cost for single dental plans is lower than the regional average, however family plans costs are higher.



rated rate for medical insurance premiums. This employee was also excluded from the peer comparison.

FHEVSD currently does not require District Administrators to contribute towards health insurance premiums. Three of the four local peers do not have this practice in place. The one peer that does places limits on this benefit to only the superintendent and treasurer as part of their contract. The District also currently offers employees an annual stipend of \$1,000 (single) and \$2,000 (family) to switch and remain on the Standard PPO Plan 1. This stipend was added into the employer cost for the Standard PPO Plan 1.

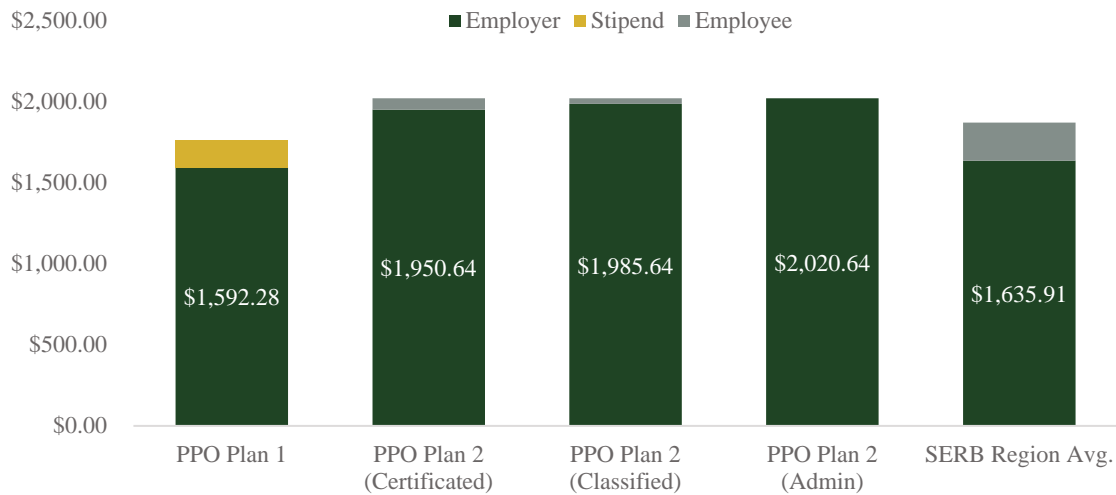
The following charts indicate how FHEVSD’s employer costs are higher for the three aforementioned types of insurance. The higher costs can be attributed to a combination of factors including higher claims history, lower employee share of premiums, and higher plan design options.



Source: FHEVSD and SERB

As shown in the chart above, the District’s employer costs for single medical plans is higher than the regional average. While the premium cost for PPO Plan 1 is lower than the regional average, the \$1,000 stipend increases the District’s cost to a rate above the regional average.

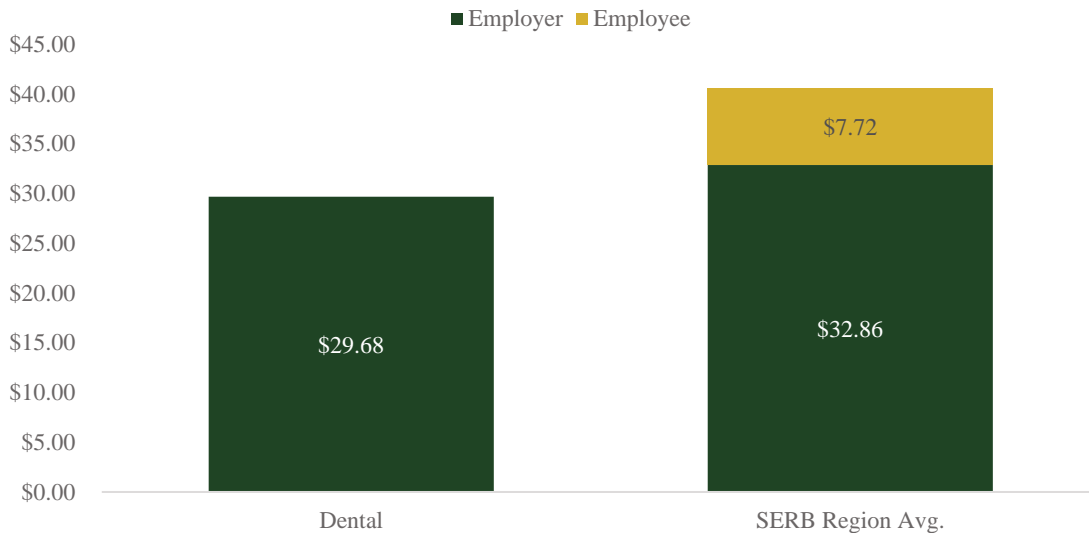
### PPO Medical Plans – Family



Source: FHEVSD and SERB

As shown in the chart above, the District’s employer costs for family medical plans is higher than the regional average. While the premium cost for PPO Plan 1 is lower than the regional average, the \$2,000 stipend increases the District’s cost to a rate above the regional average.

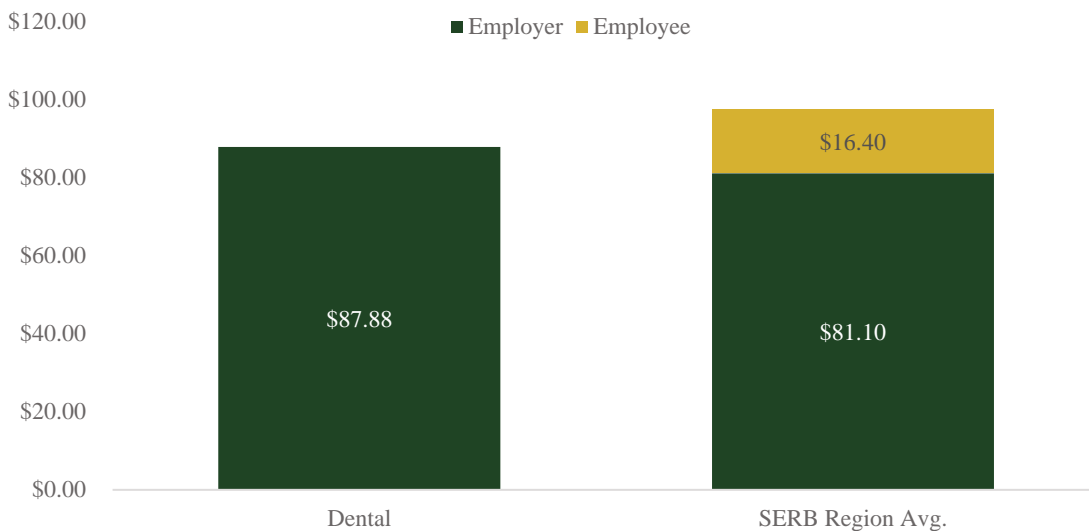
### Dental Employer Cost Comparison – Single



Source: FHEVSD and SERB

As shown in the chart above, the District’s employer costs for single dental plans is lower than the regional average.

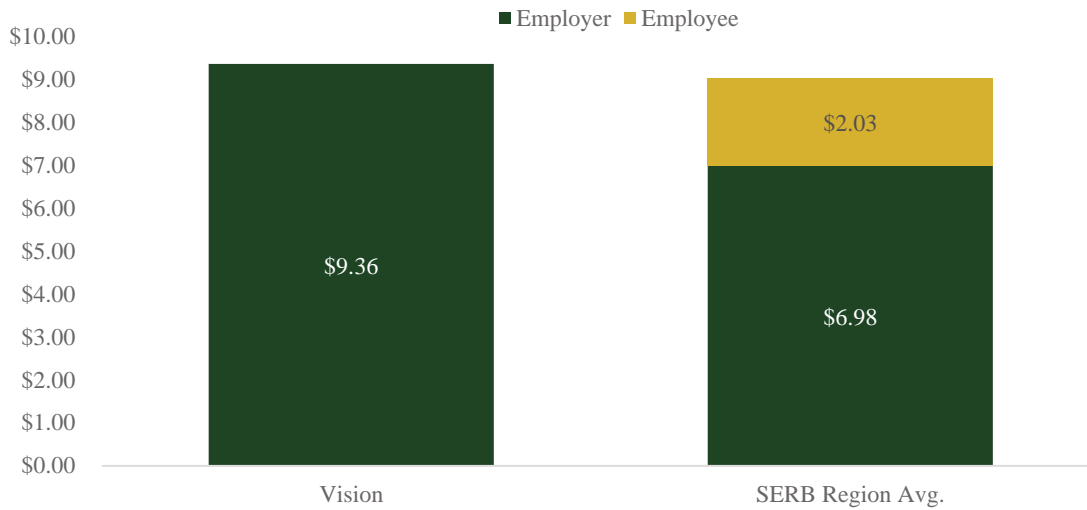
### Dental Employer Cost Comparison – Family



Source: FHEVSD and SERB

As shown in the charts above, the District’s employer costs for family dental plans is slightly higher than the regional average.

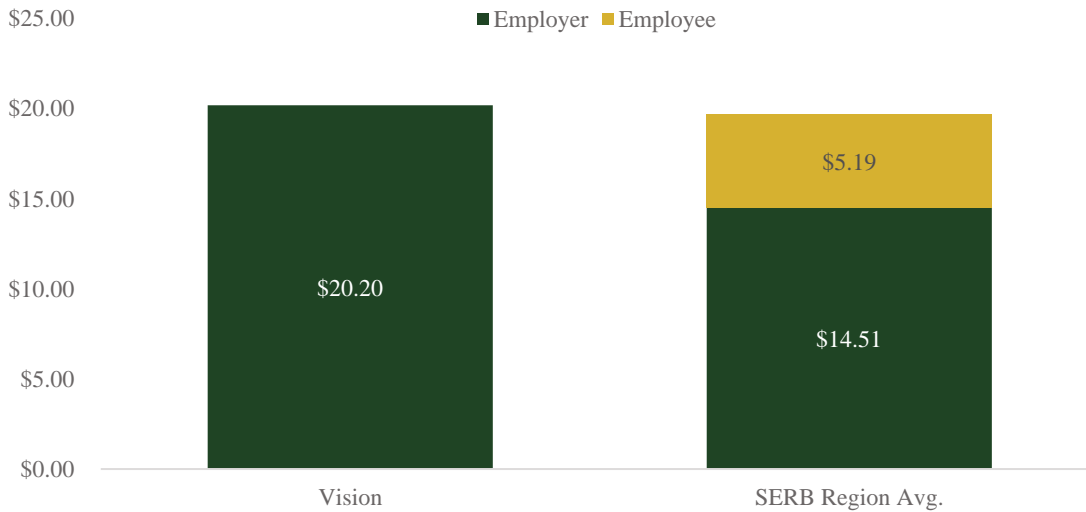
### Vision Employer Cost Comparison - Single



Source: FHEVSD and SERB

As shown in the chart above, the District’s employer cost for single vision plans is higher than the regional average.

### Vision Employer Cost Comparison - Family



Source: FHEVSD and SERB

As shown in the chart above, the District’s employer cost for family vision plans is higher than the regional average.

Additionally, we compared the medical insurance plan design to the SERB regional averages (see **Appendix C** for a more detailed analysis). PPO Plan 2, which the majority of the District’s workforce is enrolled in, has benefits that are more generous relative to the SERB regional average. This information, coupled with the low employee contributions for Plan 2, can at least partially explain why the District’s medical premium costs are so much higher when compared to the SERB regional average.

Conversely, Standard PPO Plan 1 has provisions that are mostly in line or slightly less generous than the SERB regional average. If the District were to increase employee contributions for this plan, as well as eliminate the subsidy that employees receive for being on Standard Plan 1, the costs of Plan 1 would likely align with the SERB regional average.

### Conclusion

The District could save an average of \$180,200 annually by aligning its employer costs for medical, dental, and vision insurance with the SERB regional averages. This could be done by purchasing a less expensive plan and/or increasing the employee portion of the premium. However, any changes to the employer/employee cost share are subject to negotiation and savings would not be realized until FY 2022.

# Client Response Letter

Audit standards and AOS policy allow clients to provide a written response to an audit. The letter on the following page is the Fairport Harbor Exempted Village School District's official statement in regards to this 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.



**Fairport Harbor Exempted Village School District**

*329 Vine Street, Fairport Harbor, OH 44077*

*(440)-354-5400*

[info@fhevs.org](mailto:info@fhevs.org) **Learning Today, Leading Tomorrow**

April 23, 2021

Mr. Keith Faber, Auditor  
Office of the Auditor of State  
88 E. Broad Street, 5th Floor  
Columbus, OH 43215

Auditor Faber,

On behalf of the Fairport Harbor Board of Education, I would like to thank you and the audit team for their efforts in providing this district with a State Performance Audit. Nicole, Melissa, and Justin's flexibility and professionalism were appreciated as we worked through the challenges of the 2020-21 school year. The Fairport Harbor EVSD is committed to identifying efficiencies in district operations, reducing overall operational costs where appropriate, and maximizing its resources for student achievement.

In anticipation of an April release of the report's final draft, the district would like to use the audit to improve district performance further. I appreciate this third-party perspective of overall finances in relation to the overarching goals of the district.

The Fairport Harbor Board of Education would like to acknowledge the professionalism of the Performance Audit Team and the ease with which the Team worked with representatives at the District level. The insights gained through this process will better illuminate upcoming operational decisions and staffing plans currently in development by the district administrative staff.

Sincerely,  
*Domenic Paolo*  
Domenic Paolo, PhD  
Superintendent  
Fairport Harbor EVSD

*Sherry L. Williamson*  
Sherry Williamson  
Treasurer  
Fairport Harbor EVSD

# Appendix A: Purpose, Methodology, Scope, and Objectives of the Audit

## Performance Audit Purpose and 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.

Generally accepted government auditing standards (GAGAS) 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.

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

## Audit Scope and Objectives

In order to provide the District with appropriate, data driven, recommendations, the following questions were assessed within each of the agreed upon scope areas:

### Audit Scope, Objectives and Recommendations

Objective	Recommendation
<b>Financial Management</b>	
Are the District’s forecasting practices consistent with leading practices and is the five-year forecast reasonable and supported?	<b>No Recommendation. We reviewed the five-year forecast and found it to be reasonable and supported.</b>
Are the District’s strategic and capital planning practices consistent with leading practices?	<b>R.1</b>
How does the District’s open enrollment practices impact its operations?	<b>No Recommendation. We reviewed the impact of open enrollment on the District’s operations (see Background) and while it did not have a specific recommendation, open enrollment should be</b>



	<b>included in the District’s strategic and capital planning (see R.1).</b>
Is the District’s General Fund subsidy of extracurricular activities appropriate in comparison to local peers and the District’s financial condition?	<b>R.2</b>
Are the District’s expenditures dedicated to professional and technical services consistent with peers and appropriate based on the District’s financial condition?	<b>No Recommendation. We analyzed the District’s central office staff contract costs and found them to be in alignment with what they could expect to pay for in-house staff (see Appendix C).</b>
<b>Human Resources</b>	
Are the District’s staffing levels appropriate in comparison to primary peers, state minimum standards, demand for services, and the District’s financial condition?	<b>Issue for Further Study</b> <b>R.3</b> <b>R.4</b>
Are the District’s salaries and wages appropriate in comparison to local peers and the District’s financial condition?	<b>No Recommendation. We reviewed both the average annual salary for employees and the expected total compensation for a 30 year career and found the District to be lower than the Local Peer average (see Appendix C).</b>
Are the District’s collective bargaining agreement provisions appropriate in comparison to local peers, minimums requirements, and the District’s financial condition?	<b>No Recommendation. We reviewed CBAs for key provisions and found that the District’s provisions are generally in line with those of the primary peers and state minimum requirements.</b>
Are the District’s insurance costs appropriate in comparison to other governmental entities within the local market and the District’s financial condition?	<b>R.5</b>

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. The following internal control components and underlying principles were relevant to our audit objectives<sup>22</sup>:

- Control environment
  - We assessed the District’s exercise of oversight responsibilities in regards to detecting improper payroll reporting and benefits administration, and

<sup>22</sup> We relied upon standards for internal controls obtained from *Standards for Internal Control in the Federal Government* (2014), the U.S. Government Accountability Office, report GAO-14-704G

- We assessed the District’s activities associated with its purchasing practices
- Risk Assessment
  - We considered the District’s activities to assess fraud risks.
- Information and Communication
  - We considered the District’s use of quality information in relation to its financial and data reporting to ODE, specifically its five-year forecast and staffing data.
- Control Activities
  - We considered the City’s compliance with applicable laws and contracts.

No internal control deficiencies were identified during the course of the audit.

## Audit Methodology

To complete this performance audit, auditors gathered data, conducted interviews with numerous individuals associated with the areas of District’s 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. A “Primary Peers” set was 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 similar academic performance. A “Local Peers” set was selected for a comparison of the general fund subsidy of extracurricular activities, compensation, benefits, and collective bargaining agreements, where applicable. This peer set was selected specifically to provide context for local labor market conditions. The table on the next page shows the Ohio school districts included in these peer groups.

## Peer Group Districts

### **Primary Peers**

- Brookfield Local School District (Trumbull County)
- McDonald Local School District (Trumbull County)
- Shadyside Local School District (Belmont County)
- Toronto City School District (Jefferson County)
- Weathersfield Local School District (Trumbull County)

### **Local Peers (Compensation, Benefits, and Bargaining Agreements)**

- Mentor Exempted Village School District (Lake County)
- Painesville City Local School District (Lake County)
- Perry Local School District (Lake County)
- Riverside Local School District (Lake 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. 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. Each recommendation in this report describes the specific methodology and criteria used to reach our conclusions.

## Appendix B: Financial Systems

We conducted detailed analysis regarding the types of revenues and expenditures associated with extracurricular activities. This includes identifying costs by type and determining the amount of expenditures from the General Fund. We compared FHEVSD to the local peer average for this analysis. This information was used in identifying **Recommendation 2**.

### FY 2020 Student Extracurricular Activity Net Cost Comparison

Students Activity Type	FHEVSD			Local Peer Avg.
	Rev.	Exp.	Net Cost	Net Cost
			<b>630</b>	<b>3,944</b>
<b>Academic Oriented</b>	\$9,980	\$115,145	(\$105,165)	(\$185,700)
<b>Occupation Oriented</b>	\$0	\$0	\$0	(\$18,963)
<b>Sport Oriented</b>	\$13,027	\$201,840	(\$188,813)	(\$769,537)
<b>School &amp; Public Service Co-Curricular</b>	\$1,478	\$50,568	(\$49,090)	(\$147,754)
<b>Bookstore Sales</b>	\$0	N/A	\$0	\$880
<b>Other Extracurricular</b>	\$120	N/A	\$120	\$24,662
<b>Non-Specified 1</b>	\$21,418	N/A	\$21,418	\$319,817
<b>Total</b>	<b>\$46,023</b>	<b>\$367,553</b>	<b>(\$321,530)</b>	<b>(\$776,595)</b>
Total General Fund Direct Revenue			\$0.00	\$69,483.34
Total General Fund Direct Expenditures			\$267,418.73	\$814,999.93
Total General Fund Transfers			\$44,000.00	\$63,605.27
<b>Total General Fund Subsidy of Extracurricular Activities</b>			<b>\$311,418.73</b>	<b>\$809,121.86</b>
<b>Total General Fund Subsidy of Extracurricular Activities per Pupil</b>			<b>\$494.32</b>	<b>\$205.15</b>
<b>Total Difference in General Fund Subsidy to Local Peer Average</b>			<b>\$182,177.10</b>	
<b>Remaining General Fund Subsidy</b>			<b>\$129,241.63</b>	

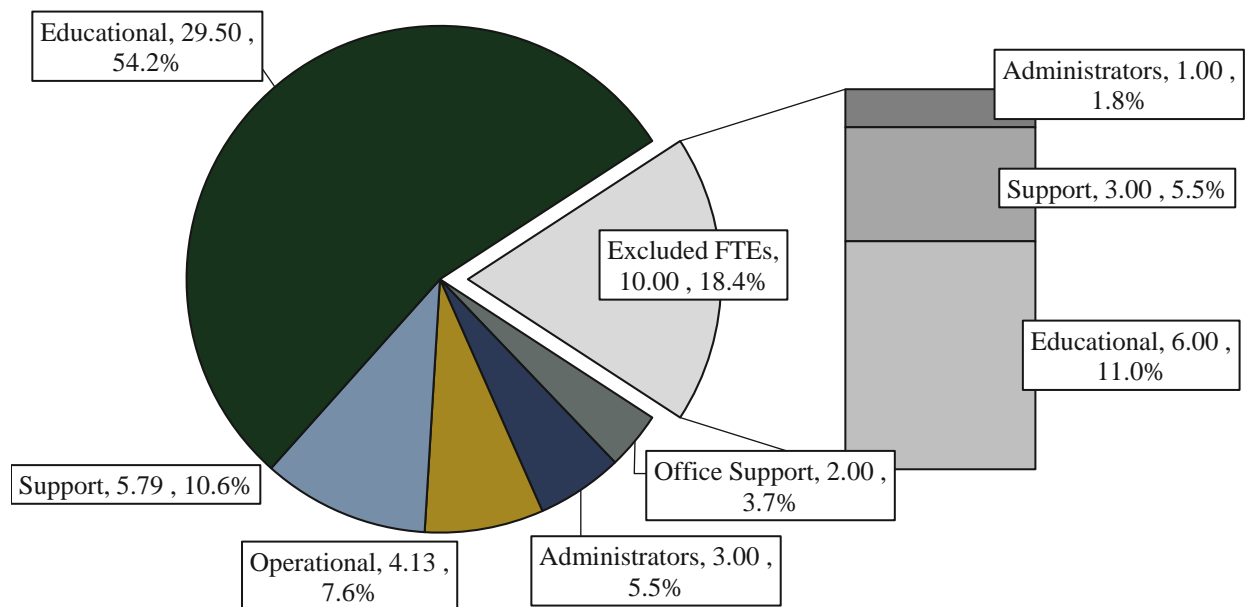
Source: FHEVSD, local peers, and ODE

1 Non-specified represents revenue that was not coded to a specific activity type, but does reduce the net cost.

## Appendix C: Human Resources

After the initial engagement of this performance audit and before the start of the FY 2020-21 school year, FHEVSD reduced staffing levels to assist in balancing its budget and achieving financial stability. As of FY 2021, the District has 54.4 FTE employees. 10.0 of these FTEs were excluded from staffing comparisons due to their designation as Special Education or Title I employees.<sup>23</sup> The remaining 44.4 of the District’s FTEs were included in this audit’s staffing analysis. Contracted staff, such as those contracted through the ESC are not included in the peer comparisons. District contracted professional and technical services were evaluated in a separate analysis of this performance audit (see **Professional and Technical Services** section of **Appendix C**).

FTEs by Category with Excluded FTEs Breakout



Source: FHEVSD

<sup>23</sup> Special education and Title I staffing levels were excluded from staffing comparisons due to the unique requirements of Individual Education Program (IEP). All conclusions regarding the relative appropriateness of staffing are based solely on non-special education staff for both FHEVSD and the primary peers.

Staffing was analyzed using Education Management Information System (EMIS) records for FHEVSD and the primary peer districts. Data reliability testing for the District’s EMIS data was performed by comparing the EMIS report to payroll reports corresponding to the time of the report. Variances between EMIS and payroll were discussed with the District, with adjustments made as necessary.

Comparisons were made on a per 1,000 student basis using the full-time equivalent (FTE), based on ODE reporting guidelines. Within this analysis, FHEVSD staffing was compared to the primary peer average in the following categories:

- Central Office Administrators
- Building Administrators
- Teaching Staff
- K-8 Art, Music, PE Teachers
- Non-Teaching Educational Staff
- Professional Staff
- Building Office Support
- Nursing Staff
- Classroom Support
- Other Support Positions

Those categories where FHEVSD employed more staff than the primary peer averages are discussed in **Recommendation 3** and **Recommendation 4** and **Issue for Further Study: Building Administrators and Building Office Support Staff**.

## Professional and Technical Services

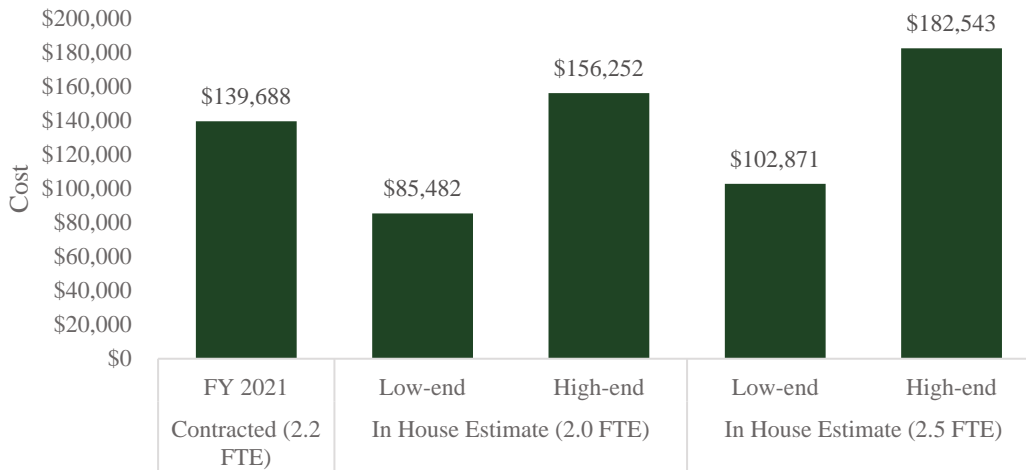
The District’s professional and technical services expenditures per pupil are higher than the peer average. The majority of expenditures in this category are allocated to Central Office Staff. The peer average for Central Office Staff is 2.7 FTEs. FHEVSD’s Central Office Staff is contracted through the ESC and Auburn Career Center. The District contracts 2.20 FTEs, and on an FTE per 1,000 student basis they are in line with the peers.

<b>Position</b>	<b>FTE</b>
Assistant to the Superintendent	1.00
High School Attendance Secretary	0.69
Payroll Assistant	0.33
Purchase Orders Assistant	0.18
<b>Total FTE</b>	<b>2.20</b>

The District’s FY 2021 Central Office Staff contracted costs were compared to estimated costs of hiring staff in-house at 2.0 and 2.5 FTEs in the following chart. The low-end is representative of the lowest step on the District’s existing building secretary salary schedule and the cheapest single insurance plan. The high-end is representative of the highest step on the District’s existing building secretary salary schedule and most expensive family insurance plan. FHEVSD’s current

costs of approximately \$139,000 fall within the range of what they would expect to pay if they hired staff in-house. Therefore, there is no recommendation made on Central Office Staffing.

### FY 2021 Central Office Staff Sourcing Cost Comparison



Source: FHEVSD

In addition to comparing staffing levels, we also reviewed actual salary data and compared the District’s compensation schedules to those of local peers. We reviewed both the average annual salary for employees and the expected total compensation for a 30 year career. The following tables show the salary comparisons for both non-certificated and certificated employees.

### Salary Comparison Tables

#### Certificated Career Compensation Comparison

	<b>BA</b>	<b>MA</b>
<b>Client</b>	\$1,597,621	\$1,940,678
<b>Peer Average</b>	\$1,895,204	\$2,208,941
<b>\$ Difference</b>	(\$297,583)	(\$268,263)
<b>% Difference</b>	(15.7%)	(12.1%)

Source: FHEVSD, SERB, and Local Peers

#### Classified Career Compensation Comparison

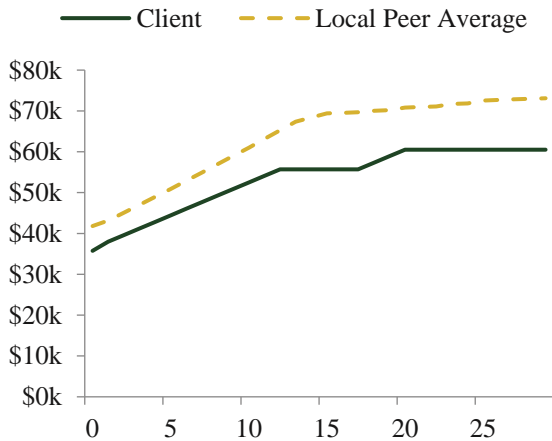
	<b>Custodian I</b>	<b>Custodian II</b>	<b>Maintenance Coordinator</b>	<b>Building Secretary</b>	<b>Custodian II (2nd Shift)</b>
<b>Client</b>	\$1,268,862	\$875,472	\$1,697,072	\$1,202,531	\$897,312
<b>Peer Average</b>	\$1,328,492	\$1,263,377	\$1,668,728	\$1,262,473	\$1,263,377
<b>\$ Difference</b>	(\$59,629)	(\$387,905)	\$28,344	(\$59,941)	(\$366,065)
<b>% Difference</b>	(4.5%)	(30.7%)	1.7%	(4.7%)	(29.0%)

Source: FHEVSD, SERB, and Local Peers

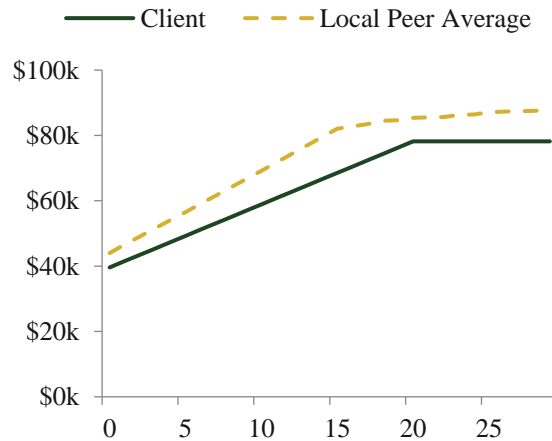
We also looked at annual salaries for all certificated employees and the hourly wage rates for a few classified employee position types over the course of a career. The charts which follow show how the annual salaries according to the respective salary and wage schedules compare to peer districts.

### Certificated Annual Salary Comparison

Bachelor's



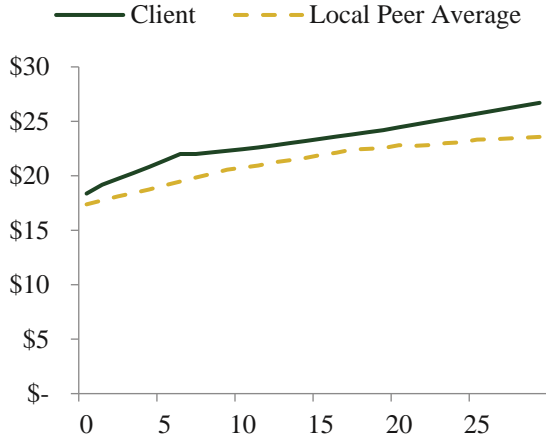
Master's



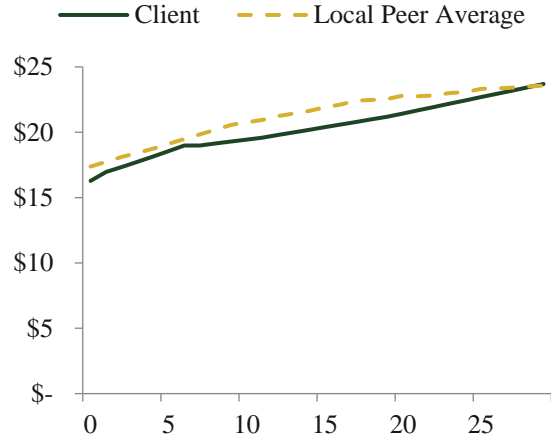


## Certificated Annual Salary Comparison

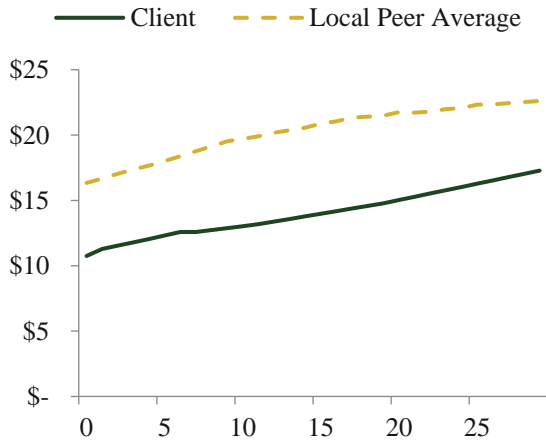
Custodian I (Grandfathered)



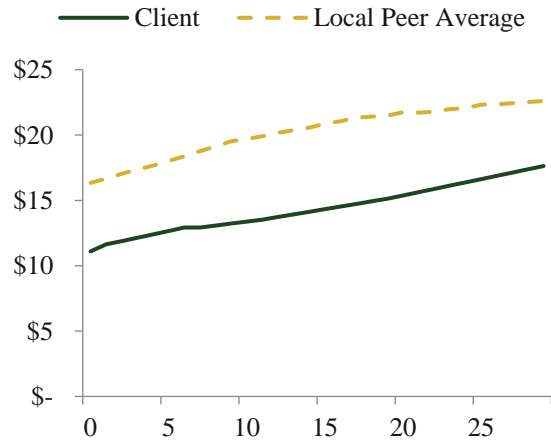
Custodian I



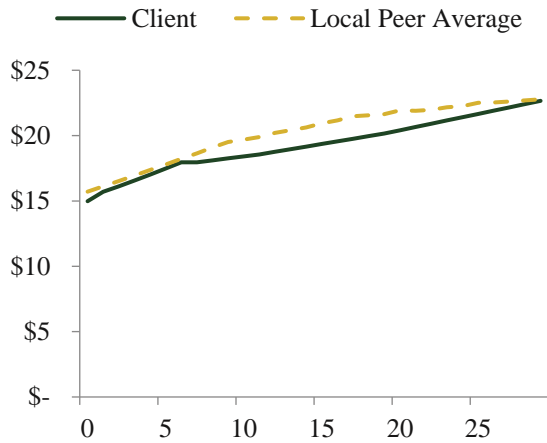
Custodian II



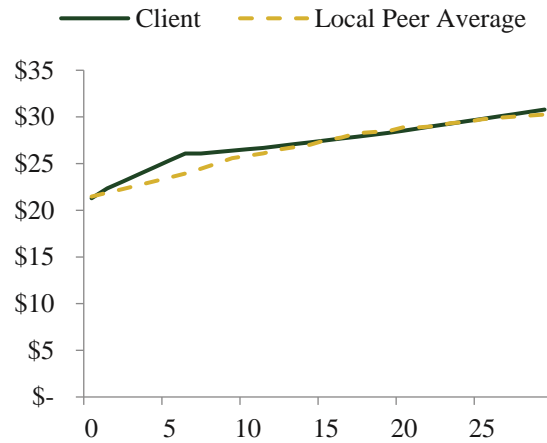
Custodian I (2nd Shift)



### Building Secretary



### Maintenance Coordinator



Lastly, we reviewed CBAs for key provisions and found that the District’s provisions are generally in line with those of the primary peers and state minimum requirements. Insurance is reviewed based on regional information from the State Employee Relations Board, and FHEVSD falls under the Cleveland region. This analysis is discussed in **Recommendation 5**.

## Insurance

The following charts illustrate the plan design comparisons of FHEVSD’s Standard PPO Plan 1 and Standard PPO Plan 2.

### Copayments Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
Office Visit	\$0.00	\$21.13	(\$21.13)	\$0.00	\$21	(\$21)
Urgent Care Visit	\$0.00	\$33.13	(\$33.13)	\$0.00	\$33	(\$33)
Emergency Room Visit	\$75	\$99	(\$24)	\$50	\$99	(\$49)

### Deductible Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
<b>Network</b>						
<i>Single</i>	\$500	\$422	\$78	\$250	\$422	(\$172)
<i>Family</i>	\$1,000	\$799	\$201	\$500	\$799	(\$299)
<b>Non-Network</b>						
<i>Single</i>	\$1,000	\$819	\$181	\$500	\$819	(\$319)
<i>Family</i>	\$2,000	\$1,689	\$311	\$1,000	\$1,689	(\$689)

### Out-of-Pocket Maximum Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
<b>Network</b>						
<i>Single</i>	\$2,000	\$2,471	(\$471)	\$1,000	\$2,471	(\$1,471)
<i>Family</i>	\$4,000	\$4,985	(\$985)	\$2,000	\$4,985	(\$2,985)
<b>Non-Network</b>						
<i>Single</i>	\$4,000	\$295,862	(\$291,862)	\$2,000	\$295,862	(\$293,862)
<i>Family</i>	\$8,000	\$297,656	(\$289,656)	\$4,000	\$297,656	(\$293,656)

### Coinsurance Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
<b>Network</b>						
Office Visit	20%	17%	3%	10%	17%	(7%)
Urgent Care Visit	20%	20%	(0%)	10%	20%	(10%)
Emergency Room Visit	0%	21%	(21%)	0%	21%	(21%)
<b>Non-Network</b>						
Office Visit	40%	41%		30%	41%	(11%)
Urgent Care Visit	40%	41%		30%	41%	(11%)
Emergency Room Visit	0%	54%		0%	54%	(54%)

### Prescriptions - Retail Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
Tier 1 - Generic	\$10	\$9	\$1	\$10	\$9	\$1
Tier 2 - Formulary Preferred	\$30	\$25	\$5	\$25	\$25	\$0
Tier 3 - Non-Formulary	\$50	\$43	\$7	\$40	\$43	(\$3)

### Prescriptions – Mail Order Comparison

	<b>FHEVSD PPO Plan 1</b>	<b>SERB Regional</b>	<b>Difference</b>	<b>FHEVSD PPO Plan 2</b>	<b>SERB Regional</b>	<b>Difference</b>
Tier 1 - Generic	\$20	\$17	\$3	\$20	\$17	\$3
Tier 2 - Formulary Preferred	\$60	\$46	\$14	\$50	\$46	\$4
Tier 3 - Non-Formulary	\$100	\$84	\$16	\$80	\$84	(\$4)

# OHIO AUDITOR OF STATE KEITH FABER



**FAIRPORT HARBOR EXEMPTED VILLAGE SCHOOL DISTRICT**

**LAKE COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 5/11/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

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