



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**DARKE COUNTY EDUCATIONAL
SERVICE CENTER
PERFORMANCE AUDIT**

DECEMBER 30, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

To the Residents and Board of Education of the Darke County Educational Service Center:

On May 13, 2002, the State Superintendent of Public Instruction placed Darke County Educational Service Center (Darke County ESC) under fiscal caution. In accordance with the provisions of Ohio Revised Code (ORC) §3316.041, the Auditor of State initiated a performance audit on Darke County ESC. The two functional areas assessed in the performance audit were financial systems and the services provided by Darke County ESC. These areas were selected because they are important components of Darke County ESC operations which support its mission of educating children, and because improvements in these areas can assist Darke County ESC in eliminating the conditions which brought about the declaration of fiscal caution.

The performance audit contains recommendations which provide additional revenues and efficiency improvements. The performance audit also provides an independent assessment of Darke County ESC's financial situation and a framework for Darke County ESC's financial recovery plan. While the recommendations contained within the performance audit are resources intended to assist Darke County ESC in developing and refining its financial recovery plan, Darke County ESC is also encouraged to assess overall operations and develop other recommendations independent of the performance audit.

An executive summary has been prepared which includes the project history; a discussion of the fiscal caution designation; a district overview; the purpose and objectives of the performance audit; and a summary of findings, commendations, recommendations and financial implications. This report has been provided to Darke County ESC and its contents discussed with appropriate District officials. Darke County ESC has been encouraged to use the results of the performance audit as a resource in improving its overall operations, service delivery and financial stability.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or the toll free number in Columbus at (800) 282-0370. This performance audit can also be obtained on-line through the Auditor of State's website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

December 30, 2002

Executive Summary

Project History

Pursuant to Ohio Revised Code (ORC) §3316.031(A), the state superintendent of public instruction, in consultation with the Auditor of State (AOS), has developed guidelines for identifying fiscal practices and budgetary conditions that, if uncorrected, could result in a future declaration of a fiscal watch or fiscal emergency within a school district or educational service center (ESC). According to ORC §3316.042, AOS may conduct a performance audit of a school district or ESC in a state of fiscal caution, fiscal watch or fiscal emergency and review any programs or areas of operations in which AOS believes that greater operational efficiencies or enhanced programs can be achieved.

Darke County Educational Service Center (Darke County ESC) was placed in fiscal caution on May 13, 2002 after AOS determined that conditions or practices existed that could result in Darke County ESC being placed in fiscal watch or fiscal emergency. Pursuant to ORC §3316.031 and ORC §3316.042, AOS initiated a performance audit of Darke County ESC. Based upon a review of Darke County ESC information and discussions with the superintendent and the treasurer, the services and financial systems of Darke County ESC were reviewed.

ESCs are not required to create and maintain a detailed five-year forecast. Therefore, AOS has created an initial five-year forecast of revenues and expenses that should be used by Darke County ESC as a long-term financial planning tool.

District Overview

Darke County ESC is responsible for providing educational and informational services to local school districts in Darke County. Darke County ESC has formed agreements to provide services to Greenville City School District and Versailles Exempted Village School District in addition to the following five local school districts located in Darke County: Ansonia Local School District, Arcanum-Butler Local School District, Franklin-Monroe Local School District, Mississinawa Valley Local School District and Tri-Village Local School District. Services that Darke County ESC provides include administrative, curriculum, pupil personnel and technology services to students, teachers and administrators of these districts. In FY 2001-02, the total average daily membership (ADM) for all districts served by Darke County ESC was 9,183.

An ESC's primary source of funding is generated from payments made directly to the ESC by districts that have contracted for services. In March 2002, the Ohio Department of Education stated that Darke County ESC should not provide any service for which it does not receive 100

percent reimbursement for excess costs. Darke County ESC, however, has not historically charged the districts for all services provided. As a result, Darke County ESC has experienced a declining net income which resulted in an unencumbered General Fund deficit in FY 2001-02. Darke County ESC is aware of the causes of its operating deficit, and is actively taking steps to achieve financial stability. Darke County ESC has created a cost savings plan which will be fully implemented in FY 2002-03. Outlined in this plan are the reduction of eight positions, as well as the reduction of travel and mileage; insurance; and dues and fees expenditures. In addition, Darke County ESC has made a concerted effort to increase revenues for services provided to the local districts. In FY 2002-03, Darke County ESC will receive an additional \$142,000 as a result of increased billing to the districts receiving services. In order to further stabilize its current and future financial condition, Darke County ESC should continue to be proactive in addressing its financial difficulties by considering the recommendations in this performance audit.

Objectives & Methodology

The goal of the performance audit process is to assist Darke County ESC management in identifying cost savings with the objective of eliminating conditions which brought about its unencumbered General Fund deficit. The performance audit is designed to develop recommendations which provide cost savings, revenue enhancements and/or efficiency improvements. These recommendations comprise options that Darke County ESC can consider in its continuing efforts to stabilize its financial condition. Included in the performance audit is an independent assessment of Darke County ESC's financial situation and the development of a detailed five-year forecast.

To complete this report, the auditors gathered and evaluated a significant amount of data pertaining to Darke County ESC. In addition, auditors conducted interviews with various individuals associated with Darke County ESC. Auglaize County Educational Service Center (Auglaize County ESC), Knox County Educational Service Center (Knox County ESC) and Pickaway Educational Service Center (Pickaway County ESC) were identified as peers based upon a review of various demographic information and input from Darke County ESC personnel.

Key Findings and Recommendations

The performance audit report and executive summary contain a number of recommendations pertaining to Darke County ESC. The following are the key recommendations:

- Darke County ESC should consider using alternate sources for accessing additional funding. Darke County ESC has historically received a low level of grant funding from federal and state sources and has limited resources to seek additional grants. Darke County ESC could receive additional federal, state and private grants by using alternate sources. An increase in grant receipts would aide in minimizing costs to the individual school districts and enhance current services.

Financial implication: An administrative fee of approximately 7 percent is used by the peer ESCs to cover costs such as secretarial duties, grant writing and other expenditures that cannot be directly charged to the school districts. Darke County ESC should consider implementing a basic fee structure that would allow for such expenditures to be recovered. Based upon the recovered costs of \$666,696 for all services provided to the school districts in FY 2002-03, Darke County ESC could receive an additional \$46,700 if a 7 percent administrative fee for secretarial and treasury services was implemented.

- Darke County ESC should familiarize administrative employees with the monthly ESC Settlement Reports provided by ODE. Administrative employees should be able to identify all funding amounts provided in the settlement report and use the report to verify the State funding levels for accuracy. In addition, familiarity with this report will aid employees in budgeting and forecasting functions. The ESC Settlement Report provides detailed information such as reported funding ADM of each local district, as well as, funding amounts for approved supervisors, coordinators, special education instructors and gifted instructors of Darke County ESC. This information is used in the calculation of Darke County ESC's State funding levels.
- Darke County ESC should create and maintain a five-year forecast of revenues and expenses similar to the financial forecast presented in **Table 2-4**. This forecast should be used as an analysis tool to gauge Darke County ESC's financial position and enable it to proactively carry out its financial operations. The forecast should be updated during the year as situations occur which could materially affect Darke County ESC's financial position.
- Darke County ESC should consider implementing an automated system to track all services provided the local school districts. The automated system should also be used to generate invoices to the school districts. In addition, Darke County ESC should implement the use of contracts for services provided. During FY 2001-02, Darke County

ESC provided numerous services to area school districts. Darke County ESC received approximately \$1.7 million from ODE and city/county contracts. However, if Darke County ESC would have billed for services provided (salaries, benefits and excess costs) in excess of revenue received, it could have received approximately \$621,000 in additional resources.

Financial Implication: By directly billing local school districts for all services rendered, Darke County ESC could generate an additional \$340,000 in revenues to offset service costs.

- Darke County ESC should develop policies and procedures to ensure that accurate billings are prepared and reconciled before being submitted to the school districts for payment. Accurate records are required to ensure the correct billing of contracted service provided to the school districts. Darke County ESC does not currently keep a detailed listing of employees and related expenses for each school district it serves or program it operates. This could result in incorrectly billed amounts for services rendered.
- Darke County ESC should require signed contracts between the ESC and the schools it serves which detail the pertinent information for the services received and amount of reimbursement expected for each service. Darke County ESC does not require contracts with entities that it services. The lack of written agreements for services provided allows terms and conditions to be misinterpreted, argued or overlooked.

Summary of Financial Implications

The following table summarizes the performance audit recommendations which contain financial implications. These recommendations provide a series of ideas or suggestions which Darke County ESC should consider. Detailed information concerning the financial implications, including assumptions, is contained within the individual sections of the performance audit.

Recommendations	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
R2.1 Administrative Fee	\$46,700	\$48,800	\$51,100	\$53,400	\$55,900
R2.4 Contract for additional recoverable costs	340,000	354,000	368,000	382,000	398,000
Total	\$386,700	\$401,500	\$419,100	\$435,400	\$453,900

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Financial Systems

Background

This section of the report focuses on the financial systems within Darke County Educational Service Center (Darke County ESC). The objective of this section is to analyze the current financial condition of Darke County ESC and develop recommendations for improvements and efficiencies. Unlike traditional public schools, educational service centers (ESCs) are not required to create and maintain a five-year forecast. As a result, the five-year forecast included in this report was created by AOS based upon interviews with and information provided by Darke County ESC personnel.

Darke County ESC Operations

ESCs are responsible for providing educational and informational services to local school districts within the county. Pursuant to ORC §3313.843, ESCs are not required to provide services to city and exempted village districts within the county, but may do so through the formation of a contract or other form of agreement. Darke County ESC has formed agreements to provide services to Greenville City School District and Versailles Exempted Village School District in addition to the five local school districts located in Darke County.

Darke County ESC provides administrative, curriculum, pupil personnel and technology services to students, teachers and administrators within Darke County. Specific services include the following.

- **Administrative Services** – Darke County ESC provides workshops, seminars and consulting services for school administrators within Darke County. In addition, monthly superintendents’ and principals’ meetings are conducted for all schools that Darke County ESC serves.
- **Curriculum Services** – Darke County ESC provides curriculum review and consulting services for those public schools that require such services. In addition, Darke County ESC provides educational research services, staff development coordination and teacher mentoring for the schools it serves.
- **Pupil Personnel Services** – Darke County ESC provides directors, supervisors, psychologists, coordinators and instructors to public schools within the county. Darke County ESC also provides preschool education and early childhood service coordination.

- **Technology Services** – Darke County ESC provides technology coordination services in addition to technology related training, planning and support.

Darke County ESC provides services for seven school districts located within Darke County. **Table 2-1** displays the districts located within Darke County and the average daily membership (ADM) of each district.

Table 2-1: FY 2000 through FY 2002 Funding ADM for Districts within Darke County

District	FY 2000-01	FY 2001-02	FY 2002-03 ¹
Ansonia Local	712	700	713
Arcanum-Butler Local	1,186	1,190	1,186
Franklin-Monroe Local	630	648	614
Greenville City	3,631	3,621	3,639
Mississinawa Valley Local	748	775	743
Tri-Village Local	775	803	752
Versailles Exempted Village	1,427	1,446	1,432
Total ADM for Districts Served	9,109	9,183	9,079

Source: FY 2000-01, FY 2001-02 and FY 2002-03 (projected) ODE J40404 Report

¹ FY 2002-03 ADM for Darke County ESC represents projections formulated by ODE and presented on the J40404 Report.

Darke County ESC has historically received a majority of its funding based on the total ADM of districts located in Darke County. For FY 2002-03, Darke County ESC will receive \$37 per pupil from the State. In addition, Darke County ESC will receive a per pupil payment from the local districts. These local per pupil amounts are determined by agreements formed between Darke County ESC and the local districts. **Table 2-2** illustrates the local per pupil funding levels and ODE’s projected FY 2002-03 ADM for each local school.

Table 2-2: FY 2002-03 Local Per Pupil Funding Amount Received by Darke County ESC

District	Per Pupil Amount	Projected ADM	Per Pupil Funding
Ansonia Local	\$35.50	713	\$25,312
Arcanum-Butler Local	35.50	1,186	42,103
Franklin-Monroe Local	35.50	614	21,797
Greenville City	6.50	3,639	23,654
Mississinawa Valley Local	35.50	743	26,377
Tri-Village Local	35.50	752	26,696
Versailles Exempted Village	9.50	1,432	13,604
Totals	N/A	9,079	\$179,543

Source: FY 2001-02 and FY 2002-03 Darke County ESC J40404 Report

Local per pupil funding amounts are not paid directly by the local districts to Darke County ESC. The per pupil amounts are deducted from the local district’s State Foundation revenues and are remitted to Darke County ESC by ODE. In addition, the local districts pay Darke County ESC a supervisory allowance and special education extended service funding through ODE. Like traditional public schools, Darke County ESC receives State revenue distributions on a semi-monthly basis. These distributions are detailed in the ESC Settlement Reports provided by ODE. **Table 2-3** displays Darke County ESC’s actual State funding levels for FY 2000-01 and FY 2001-02 and projected funding for FY 2002-03.

Table 2-3: FY 2001 through FY 2003 State Funding Amounts for Darke County ESC

	FY 2000-01	FY 2001-02	FY 2002-03 ¹
Funding Paid by State			
Special Education	\$339,561	\$308,621	\$315,542
State Per Pupil Amount	339,771	339,788	335,959
Guarantee	2,696	2,695	3,036
Total State Share	\$682,028	\$651,104	\$654,537
Funding Paid by Local Districts			
Supervisory Allowance	\$224,920	\$262,250	\$262,250
Amount per Pupil	183,374	183,394	179,543 ²
Special Education Extended Service	28,488	20,101	30,991
Total Local Share	\$436,782	\$465,745	\$472,784
Total Local and State Shares	\$1,118,810	\$1,116,849	\$1,127,321
Contracts Paid by Local Districts	\$301,279	\$276,170	\$240,251
ESC Adjustment by ODE	0	(41)	0
Total State Distribution	\$1,420,089	\$1,392,978	\$1,367,572

Source: FY 2000-01 and FY 2001-02 June No. 2 ESC Settlement Reports, FY 2003 Sept No. 1 (Proj.) ESC Settlement Report

¹ FY 2002-03 revenues are projected by ODE.

² Local per pupil amount is based on contracts between local districts and Darke County ESC.

A brief description of the main components of the ESC Settlement Report are listed below.

Special Education Funding: Special education funding is provided for special education and gifted education supervisors. In addition, preschool funding is included in this line item and is provided based on approved units. For FY 2002-03, ODE has projected total special education funding of \$315,542 for Darke County ESC. Of this amount, \$99,147 will be provided for gifted education services, with the remainder provided for special education services.

State per Pupil Amount: All ESCs receive \$37 per pupil in State funding. This funding is based on the total ADM of all public school districts served by the ESC.

Guarantee: A funding guarantee is provided for ESCs that serve a total ADM of less than 10,000. The guarantee is calculated by subtracting the ESC's total ADM from 10,000 and multiplying the difference by \$3.30 per pupil. For FY 2002-03, ODE has projected Darke County ESC's guarantee to be \$3,036 based on a projected ADM of 9,079.

Supervisory Allowance: ESCs receive a supervisory allowance for approved supervisors that perform general education functions. This funding is provided for supervisors which provide services that are not based on a contract between the ESC and the local district. For FY 2002-03, ODE has projected a supervisory allowance of \$262,250 for Darke County ESC.

Amount per Pupil (Local): Local per pupil amounts are determined by agreements formed between the local districts and the ESC. Darke County ESC's local per pupil amounts are illustrated in **Table 2-2**.

Special Education Extended Service: Extended service funding is provided for special education supervisors that are employed for workdays beyond the regular school year. This funding is calculated based on the number of days an employee works past the required days in a school year.

Contracts Paid by Locals: Contract amounts paid by locals (local districts) constitutes payments for contracts formed between local districts and ESCs, and is mainly for regular education related services.

Darke County ESC Financial Operations

Darke County ESC experienced an unencumbered fund balance deficit of \$13,974 in FY 2002. Darke County ESC administrators have cited declining county ADM, as well as the replacement of special education unit funding with weighted funding, as causes of the declining General Fund balance. Historically, Darke County ESC has provided services to local districts above the minimum requirements without requiring full payment for these services (see **R3.4**).

The financial forecast presented in **Table 2-4** represents AOS's projection of Darke County ESC's present and future financial condition with financial implications associated with the performance audit recommendations included at the bottom. The projections, which reflect General Fund balances, are accompanied by three years of comparative historical results, general assumptions and explanatory comments.

The financial projection in **Table 2-4** presents the expected revenues, expenditures and fund balances of the General Fund of Darke County ESC for each of the fiscal years including June 30, 2003 through June 30, 2007, with historical (unaudited) information presented for the FY 1999-00, FY 2000-01 and FY 2001-02.

Table 2-4: Darke County Educational Service Center

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Earnings on Investments	\$35,260	\$55,721	\$15,092	\$15,318	\$15,548	\$15,781	\$16,018	\$16,258
Services Provided to Other Entities	322,679	494,223	454,908	597,554	621,456	646,314	672,167	699,053
Unrestricted Grants in Aid	1,451,022	1,420,118	1,426,052	1,367,572	1,368,000	1,368,000	1,368,000	1,368,000
Receipts from Federal Sources	0	0	0	54,800	54,800	54,800	54,800	54,800
Restricted Grants in Aid – State	15,973	0	0	0	0	0	0	0
Restricted Grants in Aid – Federal	0	0	54,811	0	0	0	0	0
Total Revenues	1,824,934	1,970,062	1,950,863	2,035,244	2,059,804	2,084,895	2,110,985	2,138,111
Salaries	1,304,577	1,405,223	1,400,332	1,516,634	1,495,400	1,547,052	1,620,210	1,736,828
Benefits	331,115	406,536	600,810	459,750	481,170	519,042	565,917	626,127
Purchased Services	124,295	154,568	191,417	192,162	193,333	194,548	195,808	197,116
Supplies and Materials	45,481	71,077	34,993	37,126	39,408	41,850	44,464	47,263
Capital Outlay	8,040	5,559	10,151	22,350	22,407	23,361	24,626	26,463
Miscellaneous	21,998	26,735	27,501	29,340	31,378	33,644	36,173	39,005
Total Expenditures	1,835,506	2,069,698	2,265,204	2,257,362	2,263,096	2,359,497	2,487,198	2,672,802
Net Income	(10,572)	(99,636)	(314,341)	(222,118)	(203,292)	(274,602)	(376,213)	(534,691)
Net Transfers - In(Out)	0	(28,410)	53,757	0	0	0	0	0
Sale and Loss of Assets	0	50	0	0	0	0	0	0
Refund of Prior Year's Expenditures	1,795	2,418	1,276	0	0	0	0	0
Net Advances - In(Out)	(41,864)	26,070	22,217	0	0	0	0	0
Net Financing	(40,069)	128	77,250	0	0	0	0	0
Net Results of Operations	(50,641)	(99,508)	(237,091)	(222,118)	(203,292)	(274,602)	(376,213)	(534,691)
Beginning Fund Balance	418,890	368,249	268,741	31,650	(190,468)	(393,760)	(668,362)	(1,044,575)
Ending Fund Balance	368,249	268,741	31,650	(190,468)	(393,760)	(668,362)	(1,044,575)	(1,579,266)
Outstanding Encumbrances	59,566	57,929	45,626	54,400	54,400	54,400	54,400	54,400
Unencumbered Fund Balance(Deficit)	308,683	210,812	(13,976)	(244,868)	(448,160)	(722,762)	(1,098,975)	(1,633,666)
R2.1 Administrative Fee	0	0	0	46,700	48,000	51,100	53,400	55,900
R2.4 Contract for recoverable costs	0	0	0	340,000	354,000	368,000	382,000	398,000
Unencumbered Fund Balance(Deficit) with Performance Audit Recommendations	\$308,683	\$210,812	(\$13,976)	\$141,832	\$340,540	\$485,038	\$544,225	\$463,434

Source: FY 1999-00, FY 2000-01 and FY 2001-02 Darke County ESC 4502 Statement P and Exhibit 2; FY 2000-01, FY 2001-02 and FY 2002-03 ESC Settlement Reports

¹ Services provided to other entities includes approximately \$142,000 in additional revenues received annually from the districts for FY 2002-03 through FY 2006-07. As displayed in the table, the additional amount of revenues collected by Darke County ESC will not result in a positive General Fund balance.

General Assumptions

The assumptions disclosed herein are based on information obtained from Darke County ESC and ODE. These assumptions have been developed using processes and practices developed by AOS and refined in previous financial forecasts. Because circumstances and conditions assumed

in projections frequently do not occur as expected and are based on information existing at the time projections are prepared, there will usually be differences between projected and actual results.

Revenues

Earnings on Investments: Earnings on investments declined approximately 73 percent in FY 2002 due to a decline in the cash balances of Darke County ESC. For FY 2002-03 through FY 2006-07, a 1.5 percent annual increase has been projected which reflects current short term interest rates. In FY 2002-03, Darke County ESC's first State distribution will contain 75 percent of the annual per pupil amount paid by the local districts. Therefore, FY 2002-03 earnings on investments could increase above 1.5 percent due to Darke County ESC receiving a majority of its local per pupil funding at the beginning of the fiscal year.

Miscellaneous Revenues: Miscellaneous revenues primarily consist of payments made by local districts for services provided by Darke County ESC. In FY 2002-03, local districts have agreed to reimburse Darke County ESC approximately \$143,000 above what was paid in FY 2001-02 for services provided by selected coordinators. For FY 2003-04 through FY 2006-07, miscellaneous revenues have been forecasted to increase 4 percent per year due to increases in the salaries of individuals providing these reimbursable services.

Unrestricted Grants in Aid: Unrestricted grants in aid represent State disbursements made to Darke County ESC. A detailed description of how State funding is determined by ODE is illustrated in **Table 2-3**. Unrestricted grants in aid are primarily affected by total ADM within the county. For FY 2002-03 through FY 2006-07, unrestricted grants in aid have been projected to remain constant based on an ADM of 9,079. In addition, for the purpose of this forecast, the State and local per pupil amounts have been forecasted to remain constant.

Receipts from Federal Sources: Future receipts from Community Alternative Funding System (CAFS) funding will be recorded in this line item. CAFS funding is provided to Darke County ESC for services provided for the education of MRDD students. Future receipts from CAFS funding have been projected to remain constant at FY 2001-02 levels.

Restricted Grants in Aid – State: Darke County ESC received \$15,973 in restricted grants in aid in FY 1999-00 from CAFS. Future receipts from CAFS funding will be recorded in the Receipts from Federal Sources line item. As a result, no state restricted grants in aid have been projected for FY 2002-03 through FY 2006-07.

Restricted Grants in Aid – Federal: In FY 2001-02, AOS financial auditors recommended that Darke County ESC code all CAFS revenues in the federal grants in aid line item. In FY 2001-02, Darke County ESC received \$54,811 in restricted funding for reimbursements for CAFS. As previously stated, future receipts from CAFS funding will be recorded in the Receipts from

Federal Sources line item. As a result, no federal restricted grants in aid have been projected for the forecast period.

Expenditures

Salaries and Wages

The main components of the salaries and wages expenditures and a detailed projection by component are presented in **Table 2-5**.

Table 2-5: Salaries and Wages

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Certificated Salaries and Wages	\$1,062,087	\$1,109,445	\$1,101,631	\$1,090,550	\$1,071,089	\$1,115,130	\$1,166,798	\$1,258,880
Certificated Leave Benefits	90,491	98,693	90,655	93,241	91,578	95,344	99,761	107,634
Classified Salaries and Wages	128,397	170,619	175,234	285,443	284,963	287,896	302,313	316,335
Classified Leave Benefits	19,602	22,386	28,092	42,274	42,203	42,637	44,773	46,849
Other Wages and Salaries	4,000	4,080	4,720	5,126	5,567	6,045	6,565	7,130
Total Salaries	\$1,304,577	\$1,405,223	\$1,400,332	\$1,516,634	\$1,495,400	\$1,547,052	\$1,620,210	\$1,736,828

Source: Darke County ESC 4502 Report, Statement P

Certificated Salaries and Wages: Darke County ESC’s budgeted amount for salaries and wages was used in the forecast for FY 2002-03. The amount reflects the elimination of eight positions and a salary freeze eliminating cost of living adjustments (COLAs). Increases projected to occur in FY 2002-03 are the result of step increases received by eligible employees as well as appropriated buyouts of eliminated positions. Projected salary expenditures for FY 2003-04 through FY 2006-07 reflect a 4 percent COLA, as well as step increases for eligible employees.

Certificated Leave Benefits: Certificated leave benefits were projected by multiplying projected certificated salaries by a factor of .0855. This factor was determined by dividing certificated leave benefits by the certificated salaries for the corresponding year for FY 1999-00 through FY 2001-02. These results were averaged to determine the applicable factor.

Classified Salaries and Wages: Darke County ESC’s budgeted amount for salaries and wages was used in the forecast for FY 2002-03. The amount reflects a salary freeze eliminating cost of living adjustments (COLAs). Increases occurring in FY 2002-03 are the result of step increases received by eligible employees as well as appropriated

buyouts of eliminated positions. Projected salary expenditures for FY 2003-04 through FY 2006-07 reflect a 4 percent COLA, as well as step increases for eligible employees.

Classified Leave Benefits: Classified leave benefits were forecasted by multiplying projected classified salaries by a factor of .1481. This factor was determined by dividing classified leave benefits by the classified salaries for the corresponding year for FY 1999-00 through FY 2001-02. These results were averaged to determine the applicable factor.

Other Salaries and Wages: This line item was projected by applying the historical annual increase of 8.6 percent for the length of the forecast.

Employee Benefits

The main components of the employee benefits expenditures and a detailed projection by component are presented in **Table 2-6**.

Table 2-6: Employee Benefits

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Retirement - Certificated	\$186,468	\$207,441	\$384,344	\$197,717	\$194,188	\$202,173	\$211,541	\$228,235
Retirement - Classified	29,824	37,098	42,246	64,339	64,231	64,892	68,141	71,301
Employee Reimbursement	800	500	0	0	0	0	0	0
Insurance Benefits – Certificated	93,208	120,204	136,850	149,276	162,830	177,615	193,743	211,335
Insurance Benefits – Classified	18,418	34,946	35,857	45,018	56,521	70,962	89,092	111,856
Worker’s Compensation	2,397	6,347	1,513	3,400	3,400	3,400	3,400	3,400
Total Employee Benefits	\$331,115	\$406,536	\$600,810	\$459,750	\$481,170	\$519,042	\$565,917	\$626,127

Source: Darke County ESC 4502 Report, Statement P

Certificated Retirement: FY 2001-02 retirement expenditures for certificated employees increased approximately 85 percent due to a one-time lump sum State Teachers Retirement System (STRS) contribution made by Darke County ESC in FY 2001-02. In FY 2001-02, all ESCs were required to convert from yearly STRS contributions to monthly contributions. As a result, Darke County ESC was required to make a one-time lump sum payment of approximately \$250,000 in FY 2002 to cover FY 2000-01 contributions. For FY 2002-03 through FY 2006-07, expenditures for certificated employees were forecasted by determining the average historical percentage of retirement contributions to certificated salary expenditures (18.1 percent). This percentage was then applied to salary expenditure projections.

Classified Retirement: Retirement expenditures for classified employees increased an average annual rate of 19 percent from FY 1999-00 to FY 2001-02. For the purpose of this forecast, classified retirement expenditures were projected by determining the average historical percentage of retirement contributions to classified salary expenditures (22.5 percent) and applying this percentage to projected salary expenditures.

Employee Reimbursement: Expenditures for employee reimbursements and other fringe benefits have historically been immaterial. Darke County ESC has eliminated all employee reimbursements for the length of the forecast.

Insurance Benefits – Certificated and Classified: Beginning in FY 2002-03, Darke County ESC began offering a \$500 lump sum payment to all employees who waive their rights to receive Darke County ESC insurance benefits. As of the date of this performance audit, three employees have elected to take advantage of this offer. In addition, beginning in FY 2002-03, each employee will be responsible for a 10 percent contribution for insurance costs. For FY 2002-03 through FY 2006-07, insurance benefits have been forecasted by applying the average historical increase (21.1 percent for certificated, 39.5 percent for classified). The forecasted amounts have been reduced by the 10 percent employee contributions.

Worker’s Compensation: Darke County ESC’s expenditures for worker’s compensation have experienced significant volatility. However, these expenditures have historically been immaterial to Darke County ESC’s operating expenditures. For the length of the forecast, worker’s compensation has been forecasted using the three year historical average of \$3,400.

Purchased Services

The main components of the purchased services expenditures and a detailed projection by component are presented in **Table 2-7**.

Table 2-7: Purchased Services

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Professional And Technical Services	\$37,184	\$48,176	\$107,467	\$107,000	\$107,000	\$107,000	\$107,000	\$107,000
Property Services	3,777	3,605	3,650	3,796	3,948	4,106	4,270	4,441
Travel Mileage/Meeting Expense	58,831	66,862	53,647	53,647	53,647	53,647	53,647	53,647
Communications	15,163	13,576	16,403	17,059	17,741	18,451	19,189	19,956
Utilities	9,033	9,582	8,647	8,993	9,263	9,541	9,827	10,122
Contracted Craft or Trade Service	307	12,767	1,603	1,667	1,734	1,803	1,875	1,950
Total Purchased Services	\$124,295	\$154,568	\$191,417	\$192,162	\$193,333	\$194,548	\$195,808	\$197,116

Source: Darke County ESC 4502 Report, Statement P

Professional and Technical Services: Professional and technical services increased approximately 123 percent in FY 2001-02. This increase was due to professional and technical services purchased as a result of Darke County ESC's contract with the Greenville City School District. Projected professional and technical services for FY 2002-03 through FY 2006-07 are largely dependent on contracts formed between Darke County ESC and the school districts it serves. As no changes have been negotiated and services are expected to remain constant, professional and technical services have been forecasted to remain constant at the FY 2001-02 level.

Property Services: Expenditures for property services include all services purchased to operate, repair, maintain, insure and rent property and equipment used by Darke County ESC. This line item has been projected to increase at an inflationary rate of 4 percent per year.

Travel/Mileage Meeting Expense: Travel/mileage meeting expense decreased approximately 20 percent in FY 2002-03 due to an expenditure reduction plan implemented by Darke County ESC. Under this plan, employee mileage reimbursement was reduced to .20 cents per mile. As a result, this line item has been projected to remain constant at FY 2002-03 levels.

Communications: The communications expenditures line item includes all payments for telephone services, postage fees, messenger services and advertising. For FY 2002-03 through FY 2006-07, expenditures for communications have been forecasted to increase at the historical rate of 4 percent per year.

Utilities: Expenditures for utilities include all payments for electricity, water and sewerage, gas, coal and oil. Utilities expenditures have been projected to increase at an inflationary rate of 4 percent per year. Due to the volatility of this line item, Darke

County ESC will need to closely monitor and adjust expenditures for utilities when creating future financial forecasts.

Contracted Craft or Trade Service: This line item includes all expenditures for printing and binding, contracted food services and work-study program payments. Historically, expenditures for contracted craft services have not had a significant impact on Darke County ESC’s total operating expenditures. The contracted craft or trade services line item experienced a significant one year increase in FY 2000-01 due to one Darke County ESC employee taking a long-term absence due to illness. As a result, Darke County ESC had to contract with Western Ohio Therapists to cover the responsibilities of this employee. When forecasting contracted craft or trade services, the significant increase that occurred in FY 2000-01 was not factored in. As a result, this line item has been projected by applying a 4 percent inflationary increase for the length of the forecast.

Supplies

The main components of the supplies expenditures and a detailed projection by component are presented in **Table 2-8**.

Table 2-8: Supplies

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
General Supplies	\$30,746	\$49,554	\$18,530	\$19,271	\$20,042	\$20,844	\$21,677	\$22,545
Library Books	381	95	0	0	0	0	0	0
Newspapers, Periodicals and Films	837	1,375	513	534	555	577	600	624
Operating, Maintenance and Repair - Plant	13,517	20,053	15,950	17,321	18,811	20,429	22,187	24,094
Total Supplies and Materials	\$45,481	\$71,077	\$34,993	\$37,126	\$39,408	\$41,850	\$44,464	\$47,263

Source: Darke County ESC 4502 Report, Statement P

General Supplies: Darke County ESC placed a freeze on all non-essential general supply expenditures in FY 2001-02, which resulted in a 62.6 percent decrease in this line item. For FY 2002-03 through FY 2006-07, Darke County ESC will continue to implement this same policy on general supply purchases. As a result, this line item has been projected to increase 4 percent annually due to inflation.

Library Books: Historically, this line item has not had a significant impact on Darke County ESC’s total operating expenditures. In FY 2001-02, Darke County ESC eliminated all expenditures for library books. For the purpose of this forecast, expenditures for library books have been shown at zero.

Newspapers, Periodicals and Films: In FY 2001-02, Darke County ESC significantly reduced expenditures for newspapers, periodicals and films. This line item has been forecast to increase at an inflationary rate of 4 percent per year.

Operating, Maintenance and Repairs – Plant: This line item includes expenditures for items used to operate, maintain and repair Darke County ESC’s property, buildings and equipment. This line item experienced a significant one-year increase in FY 2000-01 due to the purchase of an alarm system for the Darke County ESC facility. When forecasting future operating, maintenance and repairs expenditures, the one-year increase that occurred in FY 2000-01 was not factored in. As a result, this line item has been forecasted to increase at the historical rate of 8.6 percent per year for the forecast period.

Capital Outlay

The main components of the capital outlay expenditures and a detailed projection by component are presented in **Table 2-9**.

Table 2-9: Capital Outlay

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Equipment	\$8,040	\$5,183	\$10,151	\$22,350	\$22,407	\$23,361	\$24,626	\$26,463
Equipment - Replacement	0	376	0	0	0	0	0	0
Total Capital Outlay	\$8,040	\$5,559	\$10,151	\$22,350	\$22,407	\$23,361	\$24,626	\$26,463

Source: Darke County ESC 4502 Report, Statement P

Equipment: Expenditures for equipment fluctuated from FY 1999-00 to FY 2001-02. For the purpose of this forecast, expenditures for capital equipment have been forecast as 1 percent of total expenditures. This percentage was determined by averaging the equipment expenditures as a percentage of total expenditures of Auglaize County ESC, Knox County ESC and Pickaway County ESC.

Equipment – Replacement: Historically, expenditures for replacement equipment have not significantly impacted Darke County ESC’s total operating expenditures. Furthermore, the Darke County ESC treasurer stated that no capital equipment is expected to be replaced for the forecasted period.

Miscellaneous Expenditures

The main components of the miscellaneous expenditures and a detailed projection by component are presented in **Table 2-10**.

Table 2-10: Miscellaneous Expenditures

	Actual FY 99-00	Actual FY 00-01	Actual FY 01-02	Forecast FY 02-03	Forecast FY 03-04	Forecast FY 04-05	Forecast FY 05-06	Forecast FY 06-07
Dues and Fees	\$17,827	\$22,446	\$21,764	\$22,635	\$23,540	\$24,482	\$25,461	\$26,479
Insurance	4,171	4,238	5,686	6,652	7,784	9,106	10,655	12,467
Miscellaneous Objects	0	51	51	53	54	56	57	59
Total Miscellaneous	\$21,998	\$26,735	\$27,501	\$29,340	\$31,378	\$33,644	\$36,173	\$39,005

Source: Darke County ESC 4502 Report, Statement P

Dues and Fees: This line item experienced a 3 percent decline in FY 2001-02 as result of restrictions placed on dues and fees expenditures for employees. Darke County ESC will only pay dues and fees for professional memberships essential for the employee's position. This policy, implemented in FY 2001-02, will continue indefinitely. As a result, the dues and fees line item has been projected to increase at the inflationary rate of 4 percent per year.

Insurance: The insurance line item represents expenditures for insurance to protect pupils, employees and assets of Darke County ESC against a loss due to accident or neglect. This line item has been projected to increase at the historical average of 17 percent.

Miscellaneous Objects: This line item contains expenditures not defined in any other category. Expenditures for miscellaneous objects have been forecasted to increase at a rate of 4 percent due to inflation.

Recommendations

Alternate Funding

R2.1 Darke County ESC should consider utilizing alternate sources for accessing additional money.

Darke County ESC has historically received a low level of grant funding from federal and state sources and has limited resources to seek additional grants. Darke County ESC could receive additional federal, state and private grants by using alternate sources. An increase in grant receipts would aide in minimizing costs to the individual school districts and enhance current services. Furthermore, increased grant receipts could be used to offer new services to the local school districts.

Financial implication: An administrative fee of approximately 7 percent is used by the peer ESCs to cover costs such as secretarial duties, grant writing and other expenditures that cannot be directly charged to the school districts. Darke County ESC should consider implementing a basic fee structure that would allow for such expenditures to be recovered. Based upon the recovered costs of \$666,696 for all services provided to the school districts in FY 2002-03, Darke County ESC could receive an additional \$46,700 if a 7 percent administrative fee for secretarial and treasury services was implemented.

During the course of this audit, Darke County ESC began the practice of charging an administrative fee for services provided to school districts in FY 2002-03.

Financial Monitoring

R2.2 Darke County ESC should become more familiar with the monthly ESC Settlement Reports provided by ODE. Darke County ESC should be able to identify all funding amounts provided in this report and use the report to verify the State funding levels for accuracy. In addition, familiarity with this report will aid employees in budgeting and forecasting functions.

Darke County ESC was unable to identify how funding amounts were determined in the monthly ESC Settlement Report provided by ODE. The ESC Settlement Report provides detailed information such as reported funding ADM of each local district, as well as, funding amounts for approved supervisors, coordinators, special education instructors and gifted instructors of Darke County ESC. This information is used in the calculation of Darke County ESC's State funding levels. Without detailed knowledge of the ESC Settlement Report, Darke County ESC is unable to determine the accuracy of the State revenue distributions. In addition, it is unable to adequately forecast future revenues.

R2.3 Darke County ESC should create and maintain a five-year forecast of revenues and expenses similar to the financial forecast presented in Table 2-4. This forecast should be used as an analysis tool to gauge Darke County ESC’s financial position and enable it to proactively carry out its financial operations. The forecast should be updated during the year as situations occur which could materially affect Darke County ESC’s financial position.

Unlike regular school districts, ODE does not require ESCs to create and maintain five-year forecasts. As a result, Darke County ESC has not created a five-year forecast. This minimizes the ability of Darke County ESC to create a long-term financial planning document that would provide a sufficient gauge of its financial position. The absence of a five-year forecast prevents Darke County ESC from identifying changes in revenues or expenses that could materially affect Darke County ESC’s financial position. In addition, following revenue and expenditure projections will enable Darke County ESC to proactively address any significant variances which will decrease the probability of future General Fund deficits.

Recoverable Costs

R2.4 Darke County ESC should consider implementing an automated system to track all services provided the local school districts. The automated system should also be used to generate invoices to the school districts. In addition, Darke County ESC should implement the use of contracts for services provided (see R3.1).

Auglaize County ESC has developed and implemented a spreadsheet application that tracks all services provided to the school districts, as well as funds received from ODE, and assists with the preparation of customer billing statements (see also **R3.1**). In addition, the spreadsheet application assists Auglaize County ESC in monitoring its cash flow.

During FY 2001-02, Darke County ESC provided numerous services to area school districts. Darke County ESC received approximately \$1.7 million from ODE and city/county contracts. However, if Darke County ESC would have billed for services provided (salaries, benefits and excess costs) in excess of revenue received, it could have received approximately \$621,000 in additional resources. The receipt of these additional resources could have prevented Darke County ESC from being placed in fiscal caution.

Darke County ESC will begin billing for some services during FY 2002-03 which should generate an estimated \$143,000 in additional resources. However, based on AOS calculations, approximately \$340,000 in additional resources are available if Darke County ESC requires payment for all services during FY 2002-03. If Darke County ESC

can not receive 100 percent reimbursement for the excess costs of services rendered, it should consider further decreasing its services provided.

Financial Implication: By directly billing local school districts for all services rendered, Darke County ESC could generate an additional \$340,000 in revenues to offset service costs.

Table 2-11 details the financial implications developed in this report and reflected in the forecast presented in **Table 2-4**.

Table 2-11: Summary of Financial Implications

Recommendations	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
R2.1 Administrative Fee	\$46,700	\$48,800	\$51,100	\$53,400	\$55,900
R2.4 Contract for additional recoverable costs	340,000	354,000	368,000	382,000	398,000
Total	\$386,700	\$401,500	\$419,100	\$435,400	\$453,900

Source: Financial implications summaries for all sections of this performance audit

Conclusion Statement

Darke County ESC's current financial difficulties appear to be linked to the practice of providing services to school districts without requiring reimbursement. This practice has led Darke County ESC to incur significant operating deficits. In an attempt to regain financial stability, Darke County ESC must require reimbursement from school districts for all services provided. In addition, those services for which the school districts refuse to provide reimbursement should be discontinued by Darke County ESC.

The administrators of Darke County ESC have begun to improve its long-term financial solvency by controlling, and in some cases, reducing operating expenses. In FY 2002-03, Darke County ESC eliminated eight positions in an effort to decrease expenditures. However, future financial stability will require that further important management decisions be made to ensure that Darke County ESC eliminates all non-reimbursed services provided. Darke County ESC administrators are encouraged to evaluate recommendations contained within this performance audit, as well as other cost saving possibilities which could aid it in regaining financial solvency.

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Services

Background

This section of the report focuses on the services provided by Darke County Educational Service Center (Darke County ESC) and the staff required to successfully perform required and contracted services. Comparisons will be made throughout this section of the report to the following peer educational service centers: Auglaize County Educational Service Center (Auglaize County ESC), Knox County Educational Service Center (Knox County ESC) and Pickaway County Educational Service Center (Pickaway County ESC). Darke County ESC's peers were identified based upon comparable service centers identified by the Ohio Department of Education (ODE), a review of various demographic information and input from Darke County ESC personnel.

Organizational Function

Darke County ESC provides services to the area school districts in several areas, including administrative, curriculum, pupil and technology services. A description of these services is as follows:

- **Administrative Services:** workshops, seminars, consultants, staffing, professional development and personnel hiring issues;
- **Curriculum Services:** testing, researching, troubleshooting, mentoring programs, grant writing, curriculum coordination and direction;
- **Pupil Personnel Services:** special education, gifted education, adapted physical education, SBH coordination, mentoring programs, early childhood programs, and day care programs; and
- **Technology Services:** technical support and training services.

Staffing and Services

Table 3-1 illustrates the actual staffing levels at Darke County ESC and the peer districts during FY 2001-02 as reported in the Educational Management Information System (EMIS). Adjustments were made to the corresponding EMIS reports based upon interviews with the appropriate personnel.

Table 3-1: FTE Staffing Levels for FY 2001-02

EMIS Code	Category	Darke County ESC	Auglaize County ESC	Knox County ESC	Pickaway County ESC	Peer Average ¹
Administrators: Central		2.0	1.0	1.0	2.0	1.4
109	Superintendent	1.0	1.0	0.0	1.0	0.7
112	Treasurer	1.0	0.0	1.0	1.0	0.7
Administrators: Site-Based		13.3	6.0	12.0	8.0	8.7
110	Supervising / Managing / Directing	9.3	3.4	8.0	6.0	5.8
113	Coordinator	4.0	2.6	4.0	2.0	2.9
Professional Education		8.0	24.5	20.0	5.0	16.4
201	Curriculum Specialist	0.0	1.0	0.0	0.0	0.3
204	Remedial Specialist	0.0	0.0	0.0	4.0	1.3
205	Regular Teaching	1.0	1.0	1.0	0.0	0.7
206	Special Education Teaching	7.0	22.5	18.0	1.0	13.9
299	Other Professional	0.0	0.0	1.0	0.0	0.3
Professional – Other		13.5	16.0	9.0	21.0	15.3
301	Accounting	1.0	0.0	0.0	0.0	0.0
304	Audiologist	0.0	0.0	1.0	0.0	0.3
318	Psychologist	5.0	5.0	3.0	6.0	4.7
323	Social Work	1.0	0.0	1.0	6.0	2.3
325	Physical Therapist	0.0	2.0	0.0	1.0	1.0
326	Speech and Language Therapist	5.5	7.0	4.0	5.0	5.3
327	Occupational Therapist	0.0	2.0	0.0	3.0	1.7
399	Other Professional – Other	1.0	0.0	0.0	0.0	0.0
Technical		1.0	0.0	0.0	0.0	0.0
499	Other Technical	1.0	0.0	0.0	0.0	0.0
Office / Clerical		8.7	38.6	27.7	4.0	23.4
502	Clerical	3.0	0.0	5.0	2.0	2.3
505	Teaching Aide	5.7	38.6	22.7	1.0	20.8
507	Parent Mentor	0.0	0.0	0.0	1.0	0.3
Service Work / Laborer		0.0	0.0	0.0	0.0	0.0
901	Attendance Officer	0.0	0.0	0.0	0.0	0.0
Total ESC FY 2001-02 FTEs		46.5	86.1	69.7	40.0	65.2

Source: FY 2001-02 EMIS Staffing and Demographics Report for Darke County ESC and the peers

¹ Darke County ESC is not included in the peer average.

As illustrated in **Table 3-1**, Darke County ESC employs fewer FTEs than Auglaize County ESC and Knox County ESC. Darke County ESC provides services to more school districts than all three of its peers and more services than two of its three peers. Staffing levels in educational service centers vary depending upon the needs, wants and nature of requests of the school districts. **Table 3-2** illustrates the staffing levels illustrated in Table 3-1 per 1,000 ADM. The ADM is a compilation of the ADM of all districts serviced by respective ESCs.

Table 3-2: FTE Staffing Levels per 1,000 ADM for FY 2001-02

EMIS Code	Category	Darke County ESC	Auglaize County ESC	Knox County ESC	Pickaway County ESC	Peer Average ¹
Total ADM		9,108	8,898	8,381	9,546	8,942
Administrators: Central		0.2	0.1	0.1	0.2	0.2
109	Superintendent	0.1	0.1	0.0	0.1	0.1
112	Treasurer	0.1	0.0	0.1	0.1	0.1
Administrators: Site-Based		1.4	0.7	1.5	0.8	1.0
110	Supervising / Managing / Directing	1.0	0.4	1.0	0.6	0.7
113	Coordinator	0.4	0.3	0.5	0.2	0.3
Professional Education		1.8	2.7	2.3	0.5	1.8
201	Curriculum Specialist	0.0	0.1	0.0	0.0	0.0
204	Remedial Specialist	0.0	0.0	0.0	0.4	0.1
205	Regular Teaching	0.1	0.1	0.1	0.0	0.1
206	Special Education Teaching	0.8	2.5	2.1	0.1	1.6
299	Other Professional	0.0	0.0	0.1	0.0	0.0
Professional – Other		1.3	1.8	1.1	2.1	1.6
301	Accounting	0.1	0.0	0.0	0.0	0.0
304	Audiologist	0.0	0.0	0.1	0.0	0.0
318	Psychologist	0.5	0.6	0.4	0.6	0.5
323	Social Work	0.1	0.0	0.1	0.6	0.2
325	Physical Therapist	0.0	0.2	0.0	0.1	0.1
326	Speech and Language Therapist	0.6	0.8	0.5	0.5	0.6
327	Occupational Therapist	0.0	0.2	0.0	0.3	0.2
399	Other Professional – Other	0.1	0.0	0.0	0.0	0.0
Technical		0.1	0.0	0.0	0.0	0.0
499	Other Technical	0.1	0.0	0.0	0.0	0.0
Office / Clerical		0.9	4.3	3.3	0.4	2.7
502	Clerical	0.3	0.0	0.6	0.2	0.3
505	Teaching Aide	0.6	4.3	2.7	0.1	2.4
507	Parent Mentor	0.0	0.0	0.0	0.1	0.0
Service Work / Laborer		0.0	0.0	0.0	0.0	0.0
901	Attendance Officer	0.0	0.0	0.0	0.0	0.0
Total ESC FY 2001-02 FTEs		5.7	9.6	8.3	4.0	7.3

Source: FY 2001-02 EMIS Staffing and Demographics Report for Darke County ESC and the peers

¹ Darke County ESC is not included in the peer average.

Table 3-2 further indicates that the staffing levels per 1,000 ADM at Darke County ESC are lower than the peer average staffing per 1,000 ADM. However, an educational service center's staffing levels are directly related to the needs, wants and requests made by school districts served by the educational service centers. **Table 3-3** illustrates the various services provided by Darke County ESC and the peer educational service centers.

Table 3-3: Services Provided for FY 2001-02

Service Provided	Darke County ESC	Auglaize County ESC	Knox County ESC	Pickaway County ESC
<i>STUDENT SERVICES</i>				
Adaptive Physical Education/Arts	X			
Alternative Schooling	X	X	X	X
Counseling		X		
Day Care/Early Childhood Development	X		X	
Gifted and Talented	X	X	X	
Leadership & Mentoring Programs	X			
MH & SBH Coordination	X	X		
Occupational & Physical Therapies	X	X		
OhioReads	X			
Pre-school	X	X	X	X
Psychological Testing and Evaluation	X	X	X	X
Social Work		X	X	
Special Education – MH & SBH	X	X	X	X
Speech and Language Therapy	X	X	X	X
Study Tables/Summer School		X		
Transportation		X		
Volunteer Programs			X	
Work Study (School-to-Work)	X	X		X
Percent of Possible Student Services Offered	72.2%	72.2%	50.0%	33.3%
<i>PERSONNEL SERVICES</i>				
BCI Checks	X	X		
Bus Driver Certification/CDL Training/Safety	X	X		X
CAFS		X		
CBE/Proficiency Test Development	X			
Centralized Purchasing	X	X	X	X
Certification/Licensure		X		X
Classroom Observations			X	
Curriculum & Professional Development	X	X	X	X
Grant Preparation	X	X	X	X
Insurance Cost Control Programs	X			
Intersystem Diversion Team	X			
Record Retaining/Maintenance	X	X		
Research	X	X		
Resource Personnel		X	X	
Substitute Personnel	X	X		X
Technological Assistance/Media Center	X	X	X	X
Textbook selection/adoption	X	X	X	
Truancy Procedures/Personnel/Work Permits	X			X
Workshops/Seminars/Meetings	X	X	X	X
Percent of Possible Student Services Offered	78.9%	73.7%	42.1%	47.4%
<i>COMMUNITY SERVICES</i>				
Adult Basic and Literacy Education & GED				X
Child Abuse Prevention				X
Community & State Connection		X		
FAST Community Representative		X		
Training Ohio Parents for Success (TOPS)				X
Percent of Possible Student Services Offered	0.0%	40.0%	0.0%	60.0%
Totals	28	29	17	18

Source: Darke County ESC and peer educational service center websites

As illustrated in **Table 3-3**, Darke County ESC offers a number of services comparable to Auglaize County ESC. The services offered to the school districts depend solely on the needs of each school district. The needs of each school district also determine the staffing needed by each ESC (see **Table 3-1** and **Table 3-2**). A commitment should be made by Darke County ESC to provide the services requested, provided that the school districts commit to reimbursement for any excess costs.

Contracts

Table 3-4 illustrates the content of the contracts each service center requires to conduct business during FY 2001-02.

Table 3-4: Comparison of Contract Language for FY 2001-02

Item	Definition	Darke County ESC ¹	Auglaize County ESC	Knox County ESC	Pickaway County ESC
Entity Name	Legal title of entity (school district)	No	Yes	Yes	Yes
Contract Type	What kind of contract? City/County or Local School District	No	Yes	Yes	Yes
Contract Agreement	The details of kinds of services being provided to the school district, the duties each party and the amount paid for the services provided.	No	Yes	Yes	Yes
Signatories	The signatures of all parties are included.	No	Yes	Yes	Yes
Effective Date	The effective date of the contract is explicitly reported in the contract.	No	Yes	Yes	Yes
Contract Term	The beginning date and ending date of the contract is openly conveyed.	No	Yes	Yes	Yes
Financial Consideration	The compensation due Authority under the terms of the agreement. Additional fees or expenses for which Authority will bill the other party may be identified elsewhere in the contract. These include: <ul style="list-style-type: none"> • Excess cost coverage • Other fees or supplies • Administrative services 	No	Yes	Yes	Yes
Payment Deadline	The day by which payment is due at Authority	No	Yes	Yes	Yes
Remittance Address	All payments sent to the Authority.	No	Yes	Yes	Yes

Source: Contracts used by peer ESCs

¹ Darke County ESC has not consistently used contracts. However, an analysis of one contract from 1998 indicates that six out of nine standards were met.

All peers use contracts as an accepted operating procedure. Except for one contract from 1998 and contracts initiated in FY 2002-03, all services or agreements entered into by Darke County ESC are informal and unwritten. The lack of written agreements for the services provided allows terms and conditions to be misinterpreted and could lead to changes or errors in billing costs. Written agreements also help protect both parties from allegations of incomplete delivery, inadequate or late payments, as well as other issues related to contractual compliance. Explicitly written contracts will assure that both parties' expectations are fulfilled completely.

Recommendations

Services

R3.1 Darke County ESC should develop policies and procedures to ensure that accurate billings are prepared and reconciled before being submitted to the school districts for payment. Accurate records are required to ensure the correct billing of contracted service provided to the school districts.

Darke County ESC does not currently keep a detailed listing of employees and related expenses for each school district it serves or program it operates. This could result in incorrectly billed amounts for services rendered.

OMB Circular A-87 – Attachment B, Section h(4), states that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on (a) more than one Federal Award.

Furthermore, OMB Circular A-87 – Attachment B, Section h(5), states personnel activity reports or equivalent documentation must meet the following standards:

- They must reflect an after-the-fact distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods;
- They must be signed by the employee.

Auglaize County ESC uses a detailed spreadsheet to track each employee and the related services and programs provided. This spreadsheet is the primary source of information used in tracking services provided and developing bills to the school districts based upon the services received. The use of this spreadsheet permits reconciliation of district records of services provided to billed amounts

Contracts

R3.2 Darke County ESC should require signed contracts between the ESC and the schools it serves which detail the pertinent information for the services received and amount of reimbursement expected for each service.

The peer ESCs use contracts as an accepted operating procedure to manage their relationships with the school districts served. Darke County ESC has not consistently used contracts with entities that it services. Until recently, all services or agreements are entered into informally. The lack of written agreements for services provided allows terms and conditions to be misinterpreted, argued or overlooked. Contracts would help protect Darke County ESC from allegations of incomplete delivery, and help the ESC collect on inadequate or late payments. When the details of the contract are explicitly written, there is assurance that Darke County ESC and area school districts will get the services expected and be compensated accordingly.

Darke County ESC should institute written policies and procedures for entering into written, signed agreements with participating school districts. The policies and procedures should require the following information to be included in the contracts:

- Legal name of parties involved;
- Type of contract;
- Services to be provided, duties of parties, and amount due;
- Signatures of all parties involved;
- Effective date of the contract;
- Contract period;
- Compensation including all excess costs, fees, supplies, and administrative services; and
- Date and place where payment is due.

A contract containing such information would complete the understanding between the member school district and the educational service center as to the services provided and the charges which will be incurred for these services. The terms of the written agreements should be approved by both parties, as evidenced by signatures of the authorized personnel, and considered to be legally binding agreements.

During the course of this audit, Darke County ESC began the use of contracts for services provided. Darke County ESC should examine its contracts to determine if the contracts being used meet the standards identified within this recommendation.

Conclusion

Darke County ESC's current financial situation identified in the **financial systems** section of this report appears to be directly related to its practice of not appropriately billing districts for salaries, benefits and excess costs. Furthermore, Darke County ESC's practice of not consistently using contracts minimizes its ability to obtain reimbursement for services provided as well as its ability to firmly establish the relationship between the ESC and the school district receiving the services. Implementation of the recommendations in this section of the report as well as the recommendations in the **financial systems** section of the report will assist Darke County ESC in addressing its current and future financial considerations.

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